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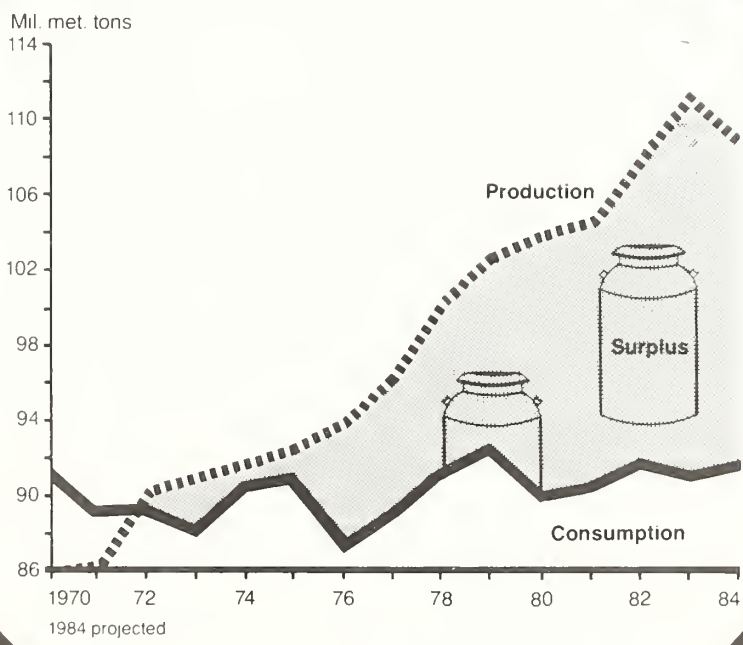
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World Agriculture

Outlook and Situation Report

EC Begins To Curb Dairy Excess



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SUMMARY

Global economic growth may slow to 3.0 to 3.5 percent in 1985, assuming slower U.S. expansion than this year and weak demand in most foreign industrialized countries. However, U.S. import demand will continue to increase next year, even if U.S. growth remains behind the rapid first-half 1984 pace.

World economic growth in 1984 has exceeded 4 percent, the highest rate since 1976. Led by first-half U.S. expansion of 8.6 percent--the fastest clip in 30 years--the rest of the world may average 3.2 percent for this year. Strong U.S. demand stimulated imports from many parts of the world, especially Canada, Japan, and East Asia.

The U.S. dollar's exchange value peaked in mid-October. It may continue to inch down through early 1985, reflecting lower U.S. interest rates. If interest rates rise next year, though, the dollar could strengthen again.

The 1984 Soviet grain crop, now estimated at 170 million tons, may stimulate record grain imports of 50 million tons in 1984/85. The United States may supply a larger share of these imports than last year. U.S. sales have already passed 15 million. For all U.S. farm exports, lower commodity prices in fiscal 1985 will likely override increased volume and keep total export value under that of 1984.

Harvested cropland outside the United States remained about the same in 1983/84 as in the previous year. Increases in harvested area have accounted for less than half the rise in foreign crop production since 1970. Cropland in most of the developing countries has been underutilized in the last 20 years; three-fourths of this cropland produced the equivalent of only one crop a year, even though most of it is in climates that permit multiple cropping.

Growing surpluses of beef, dairy products, and wheat in the European Community threaten the EC budget. Escalating dairy surpluses forced the EC to introduce milk delivery quotas this year. Milk is the most important agricultural product in the EC, providing 20 percent of the value of all farm production. IN 1983, milk program expenditures represented about 30 percent of the EC's agricultural budget and 20 percent of its total budget, more than any other farm or nonfarm sector. Although the new quotas will reduce milk output significantly, the EC will continue to have surpluses and will remain the world's largest exporter of dairy products.

WORLD ECONOMIC CONDITIONS

Global Assessment

World economic growth will likely exceed 4 percent this year. Led by the U.S. expansion, the world economy is likely to achieve its highest rate of growth since 1976. Yet, while expansion in the United States is setting a record for the post-war period, growth in the rest of the world is relatively slow. Foreign growth may average 3.2 percent this year. As a comparison, growth for the rest of the world averaged 5.5 percent a year during 1960-69 and 4 during 1970-79.

All regions have not enjoyed a surge in economic activity. Europe continues to lag the other industrialized areas, particularly North America and Japan. Restrictive government policies, weak internal demand, and slow export growth are major factors behind this poor performance. Much of the developing world is also expanding slowly.

Still, 1984 marks a strengthening; it is the first year since 1980 that growth in the rest of the world exceeded 1.5 percent. The projected 3.2 percent is the highest since 1979.

Much of the growth stems from increased exports. Strong U.S. demand for imported goods--a result of the fast-paced expansion and the highly valued dollar--has stimulated exports in many parts of the world, most appreciably in Canada, Japan, and East Asia. The U.S. expansion will remain a driving force in world growth in 1985. U.S. imports will likely continue to increase next year, even if the U.S. economy slows from 1984.

On a regional basis, growth in the foreign industrialized countries in 1984 will probably be highest in Japan, Canada, and Europe. Once again, Asia will likely lead all developing regions. Assuming petroleum markets remain stable, Africa and the Middle East will likely follow as distant seconds. Latin America's financial constraints and continued low prices for exports will probably keep that region from growing much.

Industrialized Countries: Slower Growth Ahead

Looking to 1985, the world economy will likely slow somewhat, to perhaps 3.0 to 3.5

percent. A major assumption behind this projection is that the U.S. economy will slow in 1985, down from the high 8.6 percent growth rate of the first half of 1984. The cutback in U.S. growth to 1.9 percent in third-quarter 1984 indicates that the U.S. recovery has already begun to slow. In addition, monetary and fiscal policies in the foreign industrialized economies are expected to remain fairly restrictive.

Domestic demand in most foreign industrialized economies, especially in Europe, is thus expected to remain weak, keeping import demand sluggish. For Europe, low import demand suggests that export growth will be slow; European countries serve as each other's major markets. Growth in Europe will likely remain around 2 percent in 1985 if these conditions prove true. This growth is considered insufficient to reduce the unemployment rate, now around 11 percent.

In Canada and Japan, economic activity will likely slow in 1985 if growth in exports and investment declines as expected. Much of the investment growth in these countries in 1984 has been related to the export sector, which was boosted by strong U.S. import demand. A slowdown in the U.S. economy in 1985 would affect these countries the most because they rely on the United States for a large share of their export market--70 percent for Canada and 30 for Japan in 1983. A slowdown in U.S. imports would reduce the growth rate of their exports and, consequently, incomes.

Domestic consumption in Canada and Japan is likely to be stronger than in Europe this year. Consumption patterns next year may prove similar, though the differential between these two countries and Europe will likely narrow. This could be true especially for Canada, if rising interest rates induce consumers to shift a higher share of their income out of consumption into savings.

Demand for agricultural goods is expected to remain fairly sluggish in the foreign industrialized countries, based on assumptions of moderate growth in income and consumption. Europe's demand for agricultural products in 1984 and 1985 will likely be weakest of all, while Japan's will probably be strongest.

Mexican Rescheduling Augurs Well For Developing Countries

Conditions in the developing countries, taken as a group, are improving slowly. Exports are increasing at their fastest rate since the onset of the economic slowdown in 1980, and debt reschedulings have eased the cash flow of some countries, notably Mexico. Asia has registered the fastest export growth, followed by Latin America and Africa, in order. Exports, in dollars, rose 10 percent for the oil-importing countries from second-quarter 1983 to second-quarter 1984, the most current period reported. Exports of oil-exporting countries increased almost 14 percent.

The recent export performance compares well with 1981-83 (no growth for the oil-importing countries and a 16-percent annual decline for the oil exporters), but poorly with 1975-1980 (17-percent annual growth for the oil importers and 18 percent for the oil exporters).

Recently, however, average import costs to the less-developed countries (LDC's) have been declining, implying that a given level of export revenue is able to purchase a higher volume of imports. Lately, import costs have declined so much relative to export sales that the recent growth in exports yields almost the same purchasing power as during 1975-80.

The rescheduling of roughly \$49 billion of Mexico's debts in August 1984 has eased its cash flow problems. The rescheduling is likely to save Mexico \$7 to \$8 billion annually during 1986-90 in payments of principal alone. These savings will likely be translated into an increase in import demand, possibly benefiting U.S. agriculture. The magnitude of the effect could be significant, considering that Mexico took 5 percent of the total value of U.S. agricultural exports and 18 percent of wheat exports in fiscal 1982.

The implications of the Mexican rescheduling could be far reaching in another way. The agreement is widely reported to be a model for rescheduling the debts of other countries that have made significant economic adjustments, particularly Brazil. If so, major Latin American countries may soon be increasing their economic activity and import demand, thus boosting exports and output in

the major industrialized economies, which provide 55 to 60 percent of the region's imports.

Despite improvements in exports and debt payments for many LDC's, continuing weaknesses can be seen in several indicators: low, though rising, income growth rates; depressed commodity prices; and low rates of increase in bank loans. The projected income growth rates of 3.1 and 3.7 percent for 1984 and 1985, respectively, appear strong in the light of the average 1.3 percent of 1981-83. Yet, in comparison to the 1970's (5.2 percent), the projected growth rates are very low and imply sluggish import demand through 1985.

Commodity prices could play a major role in the ability of many nations to gain foreign exchange and to repay debts. Virtually all small LDC's and some big LDC's, including Brazil, Mexico, and the Philippines, rely on commodity exports for a large share of their foreign exchange earnings. Prices for traded commodities, excluding petroleum, have declined almost 10 percent from March, the peak month so far in 1984, to September. September commodity prices were only a little more than 2 percent above the lows of late 1982.

Loans from the industrialized banks to LDC's continue to increase very slowly; they grew only 1.7 percent in second-quarter 1984. Furthermore, increases in these loans averaged only 1 percent a quarter from first-quarter 1982 to second-quarter 1984; the fastest rate was 2.8 percent in fourth-quarter 1983. By contrast, quarterly growth for such bank loans averaged 6 to 7 percent during 1977-81, when annual rates averaged 27 percent. Since 1981, the fastest 12-month rate was recorded in the second quarter of this year--up 5.5 percent from a year earlier. Continuing slow growth in banking inflows will keep LDC foreign exchange holdings and imports from rising much, especially if export growth does not accelerate.

Potential Impact of a U.S. Economic Slowdown

A slowdown in the U.S. economy in 1985 would likely result in the following changes:

- o Interest rates would rise at a slower pace or decline.

- o Import demand would slow.
- o All else being equal, the dollar would decline in value.

A slowdown or decline in U.S. interest rates would lower the differential between U.S. and foreign rates, probably causing the dollar to fall. U.S. rates have declined relative to foreign rates since July, and the dollar began to fall recently. The decline in the dollar may be short term, but it could be sustained if interest rate differentials continue to close and if the economy slows.

A slowdown in U.S. interest rates is more likely to affect foreign exchange markets than to reduce foreign interest rates. Interest rates in some countries, particularly Japan and Germany, seem to have been relatively unaffected by U.S. interest rates during the last 20 months; they did not rise dramatically in response to increases in U.S. rates. So, it is not clear whether they would be affected much by a slowdown or decline in U.S. rates during 1985.

Developing countries with large debts would find relief in a slowdown or decline in U.S. interest rates. A commonly used rule of thumb before Mexico rescheduled its debt in 1983 was that a 1-percentage-point increase (decrease) in U.S. interest rates raised (lowered) Mexico's annual debt-service payments about \$500 million. Any reduction in interest rates would help ease the foreign exchange constraints of Mexico and other debtors.

U.S. import demand would slow in proportion to a slowdown in income, and in the same time period. As a result, foreign export growth to the United States would decline simultaneously. A slowdown in U.S. import demand would very likely harm foreign incomes, given weak domestic demand in many countries. For a given slowdown in U.S. income growth, the slackening in import demand would depend on the extent of a dollar depreciation; a large depreciation would slow U.S. import growth more than a small depreciation.

Debt-burdened LDC's dependent on U.S. markets for foreign exchange earnings would be faced with a potential falloff in U.S. demand. This falloff could prove especially harmful if it were larger than the benefit of lower U.S. interest rates.

The dollar would probably decline in value if the U.S. business cycle took a sharp downturn and if the U.S. interest rate differential declined substantially. The extent of such a decline is difficult to predict; it would depend on whether investors believe there is an alternative to putting their money in U.S. asset markets.

Several factors suggest that the dollar might not decline very much. First, even if the U.S. gross national product were to increase at a slower than current rate, that rate probably would be higher than for any other industrialized country, except perhaps Japan. Second, U.S. inflation is not likely to accelerate much over the next year or longer, and will almost certainly not rise relative to the average foreign rate of inflation. Third, U.S. interest rates might not decline much during a growth slowdown, given the assumption of slow growth in the money supply. Hence, U.S. interest rates might be lower than without an economic slowdown, but they might not decline much. [Art Morey (202) 447-8470]

Foreign Exchange

Dollar Surges in September, Moderates in October

The U.S. dollar advanced strongly in foreign currency markets during September, reaching its peak in mid-October. It soared above 3.1 marks, neared 250 yen, and set record highs against virtually every European

Foreign currency units per U.S. dollar

Year	Mark	Yen	Pound	Guilder	Can\$
1979	1.833	219.2	.4713	2.006	1.171
1980	1.818	226.4	.4299	1.987	1.169
1981	2.257	220.2	.4983	2.492	1.199
1982	2.427	248.8	.5722	2.669	1.234
1983	2.553	237.5	.6592	2.854	1.232
1984					
Jan.	2.810	233.7	.7102	3.158	1.248
Feb.	2.698	233.5	.6931	3.043	1.248
Mar.	2.596	225.2	.6864	2.931	1.269
Apr.	2.647	225.2	.7036	2.984	1.279
May	2.745	229.0	.7250	3.105	1.310
June	2.738	233.4	.7257	3.085	1.304
July	2.849	243.0	.7572	3.213	1.323
Aug.	2.882	242.0	.7607	3.251	1.303
Sept.	3.028	245.3	.7954	3.412	1.314
Oct.	3.066	246.7	.8197	3.458	1.318
Nov. 1/	2.994	242.6	.8010	3.361	1.315

1/ Preliminary.

money. Of the world's major currencies, only the yen has retained as much as 95 percent of its dollar value compared to October 1983.

The drop in the dollar since mid-October is expected to be sustained through the end of 1984. Lower interest rates, slower economic growth, an easier monetary policy, and end-of-year asset consolidation will combine to reduce the worldwide demand for dollars into early 1985. Rising interest rates in 1985 should lead to a rebound in the dollar's value for the year. As a result, any expansion of U.S. exports of farm products will look to other factors for impetus.

Interest Rates Fall

Since the beginning of September, a broad spectrum of interest rates has declined in the United States and on Eurodollar deposits. As rates of return on dollar-denominated financial instruments have narrowed, demand for U.S. currency has also abated.

Two factors contribute to the widespread view that there will be no immediate return to higher interest rates. First, the slowdown in economic growth places less pressure on credit markets. There will be diminished demand for financing inventories and for new expenditures on plant and equipment. Second, currency traders believe that the Federal Reserve is adding (and will continue to add) to funds available to credit markets, ensuring that interest rates will remain lower than in August-September 1984.

Dollar To Continue Fall

December will also see downward pressure on the dollar as long (or bullish) positions are liquidated for end-of-year accounting and profit-taking by major banks and corporations. The manner in which currencies are converted may, however, notably affect changes in the dollar's value into early 1985. If swap agreements (exchanges of future for current liabilities) dominate transactions, there may be little movement in the dollar. On the other hand, if institutions are wary of adding or taking new long positions in U.S. currency, then the drop in the dollar's value could be abrupt.

Interest rate increases that have been forecast for 1985 generally imply, in the

absence of renewed inflation, that the dollar will remain above its average foreign exchange value for 1983 and near that for 1984, except against the Japanese yen. Sluggish economic growth in Western Europe will continue to lead investors to the United States, Canada, or Japan. As the world's largest and most open capital market, the United States will attract the major portion of new international investment in developed countries.

Specific forecasts for the remainder of 1984 and into 1985: The dollar will fall to 2.85 marks late in 1984 or early in 1985, and may go below 2.75 early next year. The pressure of rising interest rates, as economic growth rebounds from third-quarter 1984 lows and government borrowing increases, is expected to send the dollar back up by summer, making an average 1985 value of 2.75 to 2.85 marks likely. The yen will rise to 235 per dollar by the end of 1984, with the average for next year between 225 and 230. [David Stallings (202) 382-9831]

Cropland Use

Cropland Stabilized in 1984

Outside the United States, total world cropland actually used to grow crops was essentially the same in 1983/84 as in 1982/83, according to comparisons of harvested areas of major field crops. Cropland in the rest of the world increased 1.5 to 2.0 percent during 1982/83, after stagnating during 1979-82, and growing slowly (probably 0.5 percent yearly) during 1974-78. These estimates are based on comparisons of harvested areas of cereals, oilseeds, and cotton, which together comprise about two-thirds of the area of harvested crops in developing countries. More comprehensive statistics on cropland use abroad during 1984 have not yet been published.

These highly aggregated comparisons obviously do not reflect interregional differences or yearly variations in crop failures. Recent yearly fluctuations in harvested areas in developing countries were slightly larger than in foreign developed countries, but trends since 1973 among LDC's generally have been similar to those noted for all foreign regions.

The lack of change in cropland harvested in 1983/84 was not unusual; while increases during the 1960's commonly exceeded 1.5 percent yearly, growth during the last 15 years has passed 1 percent only under unusual circumstances. Gains in cropland harvested accounted for much less than 50 percent of the crop production increase that has occurred in the rest of the world since 1970, and in developing countries since the mid-1960's.

Intensive use of other resources in crop production was more important. Moreover, the oil price shocks of the 1970's, which increased real costs of agricultural chemicals and mechanical power, apparently did not change these trends much. Farmers in developing countries increased use of inputs after 1975 faster than they intensified use of available, idle cropland.

Cropland in most developing countries was not fully utilized during the last 20 years. The equivalent of only one crop per year was harvested from about three-quarter of all cropland in developing countries, even though most of this land was capable of sustaining multiple-cropping. In most European countries and in a few developing countries in East Asia, use of cropland for crops has actually shrunk in the last two decades, because of competition from nonagricultural uses and lack of sufficient incentives for use as cropland.

Several times since the mid-1960's, crop producers in the rest of the world have intensified their use of available land in response to higher international prices for cereals, declines in surplus cereal stocks, and reductions in cropland used for crops in the United States. But producers also promptly decreased their plantings whenever one or more of these factors shifted to a disincentive.

The sharp increase in cropland harvested during 1982/83, and the stagnation in 1983/84, illustrate the flexibility recently exercised by foreign crop producers. Plantings in 1982/83 were encouraged by all the incentives mentioned, particularly by the 15-percent drop in cropland used for crops in the United States. But, these factors changed during 1983/84, and foreign crop producers responded by stabilizing their use of cropland and by shifting towards oilseeds and cotton and away from cereals. It is probable that foreign

producers will continue this responsiveness during the next few years. Cropland on balance will continue to be ample to permit much more rapid crop expansion than could be sustained by demand at existing prices.
[Richard Taylor (202) 447-8106]

U.S. AGRICULTURAL TRADE

U.S. agricultural exports rose 9 percent to \$38 billion during FY 84, from \$34.8 billion in 1983. This was the first increase in the value of U.S. farm exports since their 1981 peak. Only the export value rose; volume fell 1 percent, as gains in wheat and cotton did not offset decreases in oilseeds and products.

Higher world commodity prices were responsible for the increase in export value and also for a record import value of \$18.9 billion. In 1985, commodity prices are expected to slip, reducing the value of exports.

Wheat Sales Were Up

U.S. wheat exports exceeded 41.7 million tons in FY 84, up 14 percent. Exports to Latin America, the USSR, and China rose, more than offsetting declines to India, the EC, and Eastern Europe. The USSR and China imported 4.6 and 2.7 million tons more, respectively, than in 1983, raising the share of U.S. wheat exports taken by the centrally

U.S. agricultural export values 1/

Commodity	1982	1983	1984	1985 F
Billion dollars				
Grains and feeds	17.6	15.2	17.4	16.5
Wheat and prod.	7.7	6.2	6.8	6.1
Rice	1.1	.9	.9	.8
Feed grains				
and products	7.0	6.6	8.2	7.0
Oilseeds and prod.	9.5	8.9	8.8	8.4
Soybean cake				
and meal	1.5	1.4	1.2	1.0
Soybeans	6.5	5.9	5.7	5.6
Soybean oil	.5	.5	.6	.5
Livestock prod.	3.2	3.0	3.5	3.5
Poultry prod.	.6	.5	.4	.4
Dairy prod.	.4	.4	.4	.4
Horticultural prod.	2.9	2.7	2.6	2.7
Cotton,				
incl. linters	2.2	1.7	2.4	2.0
Tobacco	1.5	1.5	1.4	1.5
Other	1.2	.9	1.1	1.1
Total	39.1	34.8	38.0	36.5

1/ Fiscal year. F = forecast.

planned economies to 29 percent, compared with 15 last year and 32 in 1982. The export value for U.S. wheat and wheat products rose 10 percent in 1984.

The United States is currently expected to increase its share of world wheat trade in 1985. A larger market share for the EC is also projected, as are record exports by Australia and record imports by the USSR.

U.S. exports of feed grains rose in both value and volume last year. The U.S. share of world feed grain trade rose to 61 percent, from 59 percent the previous 2 years. Corn exports fell in volume, but rose 22 percent in value as the reduced 1983/84 crop pushed prices up. Exports of corn to the USSR more than doubled, making it our second largest market, exceeded only by Japan. Notable decreases occurred in exports to Eastern Europe and Mexico, while China imported no U.S. feed grains in 1984. Higher wheat feeding, stemming from record wheat supplies, led to decreased U.S. feed grain sales to Mexico and South Korea, two countries that bought substantial amounts of feed wheat from Australia.

The 1985 outlook for feedgrains is mixed. Despite a projected 7-million-ton increase in U.S. feed grain exports, the value will fall because of lower prices, and the U.S. market share is expected to remain unchanged. Positive factors include Soviet import needs, which are forecast to be the second highest on record, and Canadian barley stocks that are at a 10-year low. On the other hand, EC wheat feeding, combined with a record grain crop, will make the Community a net exporter of feed grains. Similarly, record Chinese and Thai corn crops have already led to increased competition in Asia, and Mexico's corn crop has reduced its projected import needs.

Oilseeds Gave a Poor Performance

Under the impact of a reduced 1983/84 crop and declining livestock feeding rates in Japan and the EC, U.S. exports of oilseeds and products declined 21 percent in volume in FY 84, though they changed little in value. The total export value was steadied by high vegetable oil prices; the revenue from soybean oil sales nearly offset a \$394-million decrease in beans and meal. Soybean exports to the EC

fell 37 percent, or nearly 4 million tons, but those to Japan fell only 10 percent, and those to all of Asia fell 12.

U.S. soybean meal exports dropped 24 percent in volume and 17 percent in value in FY 84, and the U.S. market share continued to slip. The decline occurred primarily in the EC as shipments to the Netherlands were more than halved. Shipments to West Germany rose slightly, however, and shipments to Asia rose 300,000 tons, primarily because of purchases by the Philippines and Iraq.

U.S. soybean exports may rise to about 21.5 million tons in FY 85, while South American exports are expected to decline to 3.8 million. The U.S. market share for soybean meal is expected to decrease again in 1985, and U.S. soybean oil exports will probably fall 17 percent as world palm oil supplies rebound.

Cotton exports rose 30 percent in volume and 42 percent in value this year, as textile trade revived. Major gains were reported for shipments to the EC and Japan; the USSR and Yugoslavia were significant buyers because of a short domestic crop and CCC credit, respectively; and Pakistan bought 2 percent of

U.S. agricultural export volume 1/

Commodity	1982	1983	1984	1985 F
Million metric tons				
Wheat	44.6	36.7	41.7	39.5
Wheat flour	.7	1.5	1.1	1.0
Coarse grains	57.9	53.8	55.6	61.6
Rice	2.9	2.3	2.3	2.0
Feeds and fodders	6.0	7.0	6.8	7.0
Soybeans	25.5	24.5	19.2	21.5
Soybean meal	6.3	6.4	4.9	5.1
Soybean oil	.9	.9	.8	.7
Other oilcake and meal	.3	.2	.2	.2
Sunflowerseed	1.5	1.4	1.0	1.0
Sunflowerseed oil	.1	.2	.2	.2
Cotton, incl. linters	1.6	1.2	1.5	1.3
Tobacco	.3	.2	.2	.2
Horticultural Prod.	3.1	3.0	2.9	3.0
Beef, pork, and variety meats	.4	.4	.4	.4
Poultry meat	.3	.3	.2	.2
Animal fats	1.5	1.4	1.4	1.4
Other	4.0	3.4	3.2	3.2
Total	157.9	144.8	143.6	149.5

1/ Fiscal year, actual export tonnages. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc.
F = forecast.

all U.S. cotton, also the result of a bad crop. China took virtually no U.S. cotton in 1984, reducing Asia's share to 70 percent, from the 1976-83 average of 80 percent. The outlook for 1985 is for lower U.S. exports and a reduced market share because the production of foreign exporters should recover and world supplies will rise. [Stephen MacDonald (202) 447-8841]

WORLD COMMODITY DEVELOPMENTS

Wheat and Rice

World wheat production is forecast to increase 3 percent in 1984/85, while rice output will rise 2 percent. Although record wheat consumption is expected, production will outpace use and ending stocks may be the highest since 1968. The U.S. share of world wheat exports is expected to increase slightly to 39 percent, while for rice it may decline to 17 percent. Average U.S. export prices for both commodities are expected to show little change from current lows.

The EC Leads Wheat Output Gains

The 1984/85 world wheat crop is forecast to increase 17 million tons from last year's record, but year-to-year changes vary considerably among regions. Much of the increase is in Europe. In the EC, good weather and increased plantings of higher yielding wheat varieties will raise production 25 percent from the 1982/83 record. Also, record yields are largely responsible for the gains in non-EC Western Europe and Eastern Europe, 22 and 12 percent, respectively.

With U.S. wheat acreage up and yields approaching last year's record, production is expected to reach 70 million tons. On the other hand, Canadian yields are down considerably because of dry weather, and the crop may decline more than 20 percent.

The 160-million-ton combined output of the world's two largest wheat producers, the USSR and China, is largely unchanged from 1983/84. However, Soviet production is forecast down 3 million tons to only 75 million, while China's output, at 85 million, is up 3.6 million. The Soviet production is the lowest since the disastrous 1975 crop. China, on the other hand, has doubled output during the past decade, primarily because of increased yields.

Output in the Southern Hemisphere may decline 5 million tons. This year's Australian crop is forecast at 18 million tons, well below 1983/84's record 21.9 million. Dry weather in the Eastern States at planting time reduced planted acreage, and yields are not expected to match last year's exceptional levels. Poor planting conditions are also the main factor behind Argentina's expected reduction.

Large Gain Expected in Soviet Imports

World wheat trade is forecast at a record 105.8 million tons in 1984/85 (July/June, excluding intra-EC trade). The 3-percent increase in trade is largely attributable to the poor Soviet harvest and projected imports of 26 million tons. Purchases by China, the world's second largest wheat importer, are expected to remain around 10 million tons because of another record harvest. Eastern Europe's large harvest will reduce its imports by nearly 1 million tons.

India has made remarkable progress in reducing its dependence on imported wheat. In fact, because of record production and stocks, India is expected to export 1 million tons or more in 1984/85, compared with imports of 2.5 million last year.

U.S. Competition Intense

Competition among the major exporters will remain strong in 1984/85. The estimate for EC wheat exports has been raised to a record 18.5 million tons, with a substantial portion likely to go to the Soviet Union. Much of the remainder of the increased Soviet import demand is expected to come from the United States, as reflected in the U.S. export forecast of 41.5 million tons. Large Australian beginning stocks will permit increased exports despite a decline in production. Canadian and Argentine exports, however, will more closely reflect their respective production declines.

Record Rice Production In 1984/85

World rice production in 1984/85 is forecast at 313 million tons, up 5.9 million from last year. Production increases of 1.3 million tons in the United States and 4.3 million in China will account for most of the

Wheat: World production, consumption, and net exports

Country	1982/83			1983/84			1984/85 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	75.3	24.7	39.7	65.9	30.3	38.7	70.0	29.0	41.4
Canada	26.7	5.1	21.4	26.6	5.9	21.8	21.0	5.3	17.2
Australia	8.9	4.1	8.1	21.9	3.3	11.6	18.0	3.4	15.0
EC-10	59.8	44.5	12.2	59.3	49.5	13.0	74.7	51.9	15.7
Argentina	14.5	4.5	7.5	12.0	4.5	9.7	10.7	4.5	6.5
Turkey	13.8	13.7	.5	13.3	13.6	.4	13.3	13.7	-.3
Major importers									
USSR	86.0	105.7	-19.7	78.0	95.0	-20.0	75.0	100.0	-25.0
China	68.4	81.4	-13.0	81.4	91.0	-9.6	85.0	95.0	-10.0
Eastern Europe	34.7	37.0	-2.2	35.4	37.3	-2.2	39.6	39.7	-.6
Other W. Europe	8.5	9.1	+.3	8.8	9.9	-.3	10.9	10.4	+.3
Brazil	1.8	6.3	-3.6	2.1	6.5	-4.5	1.5	6.5	-5.0
Mexico	4.2	4.1	---	3.2	4.2	-.6	4.2	4.2	-.1
Other Latin Am.	1.4	7.7	-6.4	1.6	8.2	-6.9	1.8	8.4	-6.7
Japan	.7	6.1	-5.5	.7	6.2	-5.6	.7	6.3	-5.5
India	37.5	37.8	-3.6	42.8	42.0	-2.5	45.1	44.8	+1.0
South Korea	.1	2.0	-1.9	.1	2.3	-2.4	0	2.5	-2.4
Indonesia	0	1.5	-1.5	0	1.6	-1.7	0	1.6	-1.6
Other Asia	16.9	23.2	-6.5	18.1	23.9	-6.7	16.8	24.9	-7.7
Egypt	2.0	7.6	-5.4	2.0	8.0	-6.4	1.8	8.4	-6.8
Morocco	2.2	3.8	-1.3	2.0	4.1	-2.1	2.0	4.3	-2.6
Other N. Afr./ME	11.2	22.3	-10.6	10.8	24.0	-13.5	10.1	25.1	-14.6
Other Africa	3.7	7.0	-3.5	2.9	7.5	-4.0	3.2	7.6	-4.6
Residual	.3	7.8	-5.0	.2	6.0	-6.2	.3	4.7	-3.6
World	478.6	467.0		489.1	484.8		505.7	502.2	

Trade on July-June years. --- = negligible. F = forecast.

Rice: World production, consumption, and net exports

Country	1982/83			1983/84			1984/85 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	4.9	2.0	2.3	3.2	1.8	2.2	4.5	2.0	2.0
Thailand	11.1	8.0	3.7	12.7	8.0	4.4	11.6	8.0	3.9
Pakistan	3.4	2.3	1.3	3.5	2.3	1.2	3.5	2.4	1.2
China	112.9	112.4	.5	118.2	117.6	.6	122.5	121.9	.6
India	47.1	48.5	-.1	59.8	58.0	-.6	58.5	57.9	-.4
Burma	9.0	8.2	.8	9.0	8.1	.9	9.0	8.1	.9
Japan	9.3	10.8	.3	9.4	10.0	-.1	10.5	9.9	0
Italy	.6	.3	.3	.7	.3	.4	.6	.3	.4
Australia	.4	.1	.3	.5	.1	.4	.6	.1	.5
Major importers									
Indonesia	22.8	23.7	-1.2	24.0	25.2	-.5	24.8	25.0	-.4
South Korea	5.2	5.3	-.2	5.4	5.6	+.1	5.7	5.4	-.0
Bangladesh	14.2	14.6	-.1	14.6	15.0	-.6	14.3	14.9	-.4
Vietnam	9.0	8.8	+.1	9.1	9.2	-.1	9.0	9.0	-.1
Other Asia	16.8	17.5	-.3	17.6	18.3	-.9	17.3	18.9	-.9
USSR	1.6	1.9	-.3	1.6	2.0	-.4	1.6	1.9	-.3
Brazil	5.3	6.2	-.4	6.1	6.2	-.1	6.5	6.3	+.1
Other Latin Am.	4.8	4.8	-.1	4.5	4.8	+.1	4.8	4.8	+.1
Iran	.8	1.5	-.7	.8	1.5	-.7	.8	1.6	-.7
Other N. Afr./ME	2.0	3.6	-1.8	2.0	3.8	-1.8	2.1	3.9	-1.9
Malagasy	1.3	1.5	-.2	1.4	1.6	-.2	1.4	1.6	-.3
Nigeria	.9	1.6	-.7	.9	1.6	-.4	.9	1.5	-.5
Other Africa	1.8	3.6	-2.0	1.7	3.7	-2.0	1.8	3.9	-2.0
Residual	.7	2.7	-1.5	.4	2.4	-1.9	.7	2.0	-1.8
World	285.9	289.9		307.1	307.1		313.0	311.3	

Trade on calendar years; calendar 1982 corresponds to 1981/82. F = forecast.

gain. Significant production boosts are also forecast for Brazil, Japan, and Indonesia. However, production in Thailand, the major export competitor of the United States, is expected to decline 1.2 million tons from last year's exceptional crop.

Rice Trade To Decline

Global rice trade is expected to decline 7 percent in calendar 1985 to 11.6 million tons, largely because of smaller purchases by Bangladesh, Brazil, India, and Nigeria. The 15-percent devaluation of the Thai Baht in early November further lowered Thai prices, as measured in U.S. dollars. Therefore, the differential between U.S. and Thai export prices for rice increased from \$170 to \$200 a ton. U.S. rice exports are forecast to decline to 2 million tons in 1985, down from 2.2 million in 1984. [Scott Reynolds (202) 447-8879]

Coarse Grains

World Production Up Sharply

Coarse grain production in 1984/85 is forecast at 789 million tons, up 100 million from last year. The United States will account for approximately 96 percent of the increase, as area expands 10 million hectares and yields rebound from last year's poor performance. Foreign production is expected to increase only 4 million tons, as a 20-percent drop in Soviet production largely offsets gains in almost all of the other major producers.

Although world production fell sharply in 1983/84, use stayed high, so ending stocks fell 51 percent to only 68 million tons. As a result, global supplies this year, at 858 million tons, are 4 percent short of the 1982/83 record. Some stock rebuilding is expected in 1984/85--possibly to 86 million tons.

Production in the major foreign exporting countries (Argentina, Australia, Canada, South Africa, and Thailand) is forecast to increase 10 percent to 63.3 million tons. The bulk of the increase will be in South Africa, up almost 5 million tons, if normal rainfall returns. Corn yields are expected to be almost double those of the last 2 drought-stricken years, although

the planted area may decline. Australia's output could decline 15 percent, since yields are not expected to match last year's exceptional level.

Production in the major importing countries and regions, at 270 million tons, is 4 million below 1983/84. However, EC production is expected to be a record 72.8 million tons, up 9 million from a year earlier. Ideal weather is behind the EC increases; area is down. Large increases are also expected in non-EC Western Europe.

Soviet Production Falls Dramatically

A reduction of almost 500,000 hectares in Soviet coarse grain area and a 14-percent decline in yields indicate a disappointing crop of only 84 million tons--21 million below 1983/84. Widespread hot, dry weather over much of the growing season is largely responsible for the expected poor yields. The bulk of the year-to-year decrease will be in barley and corn, down 14 and 4.4 million tons, respectively.

China's production is forecast 2.5 million tons above the 1983/84 record, with alltime high yields responsible for the increase. China's output has grown almost 40 percent over the last 10 years.

Coarse Grain Trade Up

Coarse grain trade (excluding intra-EC trade) in 1984/85 is forecast at 100 million tons, up from 91 million last year. The increased trade is largely because of massive Soviet imports brought on by this year's poor production and high feed requirements. Nevertheless, world demand for coarse grains will likely be tempered somewhat by the glut of exportable wheat supplies. For the second consecutive year, U.S. trade is likely to expand in volume. This year the U.S. share will likely remain at last year's 61 percent.

Soviet imports are forecast at 23 million tons, only slightly short of the 1980/81 record. Import prospects for Western Europe (only 11.1 million tons) are not promising because of large increases in domestic coarse grain production, along with more feeding of domestic wheat and imported nongrain feeds. Japanese imports are forecast to improve marginally, to just over 21 million tons.

Coarse grains: World production, consumption, and net exports

Country	1982/83			1983/84			1984/85 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	250.7	167.9	53.5	136.7	147.5	55.2	232.7	157.5	60.7
Canada	26.5	18.6	6.3	21.0	19.2	5.2	21.9	18.2	3.7
Australia	3.9	3.1	.9	9.3	3.8	5.6	8.0	3.4	4.7
Argentina	18.2	6.9	11.6	17.9	6.3	10.9	18.5	7.1	11.5
Thailand	3.8	1.2	2.4	4.4	1.4	3.3	4.9	1.5	3.4
South Africa	4.5	8.0	1.5	5.2	7.2	-2.8	10.0	7.8	-8
Major importers									
USSR	86.0	98.3	-11.0	105.0	114.5	-11.9	84.0	109.0	-23.0
China	83.5	86.1	-2.4	92.4	92.4	-0	95.0	94.4	+7
Eastern Europe	71.8	71.7	-1.6	67.3	68.3	-1.3	69.0	69.3	-1.5
EC-10	71.6	72.1	-2.2	64.0	67.9	-1.2	72.8	68.6	+1.6
Other W. Europe	21.9	31.5	-8.8	22.0	30.7	-6.0	28.6	31.5	-3.8
Brazil	19.9	21.3	+4	21.5	21.6	-5	23.0	23.1	-1
Mexico	10.2	18.8	-7.2	13.8	18.8	-6.1	14.1	19.0	-4.7
Venezuela	.8	2.8	-1.3	.8	2.4	-1.6	.8	2.7	-1.9
Other Latin Am.	7.7	10.1	-2.4	7.8	9.5	-1.9	8.6	10.4	-2.0
Japan	.4	19.0	-18.7	.4	20.6	-20.7	.4	21.2	-21.2
Taiwan	.2	4.4	-4.2	.2	4.3	-4.0	.2	4.4	-4.2
South Korea	.9	5.2	-4.1	.9	4.6	-3.9	.9	4.7	-3.5
Other Asia	41.2	44.0	-2.5	49.6	51.1	-1.9	46.1	48.4	-2.0
Egypt	4.1	5.3	-1.5	4.3	5.8	-1.5	4.4	6.2	-1.7
Iran	1.3	2.5	-1.6	1.3	2.2	-1.1	1.3	2.6	-1.3
Israel	.1	1.3	-1.2	---	1.3	-1.0	.1	1.4	-1.3
Other N. Afr./ME	17.4	23.8	-5.3	15.0	22.8	-9.1	14.3	22.5	-8.7
Other Africa	31.7	33.5	-9	27.9	30.3	-1.2	29.1	32.0	-2.4
Residual	.4	-4.6	+3	.7	4.7	-2.5	.6	4.7	-2.2
World	778.7	752.8		689.4	759.2		789.3	771.6	

Production on crop year basis, trade on October-September year. Includes corn, barley, sorghum, oats, millet, rye, and miscellaneous grains. --- = negligible. F = forecast.

International commodity prices

Year	Wheat				Corn		Soybeans	Soyoil	Soymeal 44%	
	U.S. 1/	Arg. 2/	Can. 3/	Aust. 4/	U.S. 5/	Arg. 2/	U.S. 6/	U.S. 7/	U.S. 7/	Hamburg 8/
Dollars per metric ton										
1975	149	147	181	167	122	126	210	559	141	162
1976	134	128	149	147	115	114	223	414	179	203
1977	105	100	116	113	98	93	271	524	212	240
1978	131	126	134	119	105	102	259	565	189	226
1979	162	159	171	142	118	117	278	610	160	254
1980	176	203	192	175	129	159	272	522	217	271
1981	176	190	194	175	135	139	272	464	223	269
1982	161	166	165	160	110	109	233	404	197	233
1983	158	138	167	161	137	133	269	518	222	255
1984										
Jan.	153	129	177	153	144	138	292	623	222	255
Feb.	151	125	174	148	138	129	281	600	205	243
Mar.	155	127	176	151	149	132	304	664	216	252
Apr.	158	138	168	154	150	140	303	707	208	236
May	154	NA	169	153	147	140	324	852	208	226
June	151	144	169	154	147	141	297	785	192	210
July	149	141	162	147	143	139	257	671	174	191
Aug.	154	145	158	152	140	138	256	637	167	180
Sept.	157	143	158	158	135	140	238	607	159	171
Oct. 9/	154	143	159	156	123	132	236	666	155	181

1/ No. 2 hard winter, ordinary protein, f.o.b. Gulf ports. 2/ F.o.b. Buenos Aires. 3/ No. 1 western red spring, 13.5% protein, in store Thunder Bay. 4/ July-June crop year, standard white, f.o.b. selling price. 5/ U.S. No. 2 yellow, f.o.b. Gulf ports. 6/ no. 3 yellow, f.o.b. Gulf ports. 7/ Decatur. 8/ F.o.b. ex-mill. 9/ Preliminary. NA = not available.

Chinese imports of coarse grains are forecast at only 300,000 tons in 1984/85-- as a result of continued production gains. China has not purchased major amounts of coarse grain from the United States since March 1983, despite the U.S.-China Long-Term Grain Agreement, which requires purchases of almost 1 million tons annually.

U.S. coarse grain exports in 1984/85 are forecast at 61.3 million tons, up from 55.7 million last year. Also, the U.S. share of the world market is up slightly from 1982/83 and 1981/82. Lower coarse grain prices and large Soviet purchases are the main reasons behind the improved trade prospects. [Jim Cole (202) 447-8857]

Oilseeds

World oilseed production is recovering from last year's sharp decline, with record output expected for cottonseed, rapeseed, and sunflowerseed. Protein meal demand will remain weak at least through the first half of this season, while the demand for vegetable oils continues strong. Thus, prices will remain relatively high for vegetable oils, but weak for protein meals.

Yields Lead Production Gains

Record oilseed production is expected in 1984/85, 11 percent above 1983/84. Much of the gain stems from larger planted area and improved yields in the United States-- up 11 and 14 percent, respectively. Also, last year's tight supplies and high prices have led to increased plantings in many other countries. Foreign area of the major oilseeds (excluding tree crops) is up 3 percent. When the acreage increase is combined with an 18-percent gain in yields, foreign output should rise 8.8 million tons from 1983/84's record.

Cottonseed production, led by increases in China, is about 5.8 million tons larger than 1983/84. China's crop will dramatically exceed last year's record because of larger cotton area and good weather. The U.S. outturn may increase 2 million tons.

Rapeseed output may reach a record. Most of the expected 1984/85 production increase will be in Europe, largely because of

higher yields. Canada's strong rapeseed demand in 1983/84 promoted a 25-percent increase in area, but dry weather reduced yields.

Foreign sunflowerseed production should rise 1.5 million tons because of larger plantings in Argentina and Western Europe and higher yields in Spain and Eastern Europe.

World soybean production, estimated at 90.2 million tons, will show a sharp recovery from 1983/84's reduced output. Nearly 90 percent of the 8.3-million-ton gain will be in the United States. Soybean planting in South America is now underway. Despite Brazil's new financial regulations and scarce credit, which are expected to reduce soybean plantings, favorable soybean prices relative to corn may limit the decline. In Argentina, a return to normal yields could reduce output despite larger area.

Demand for Meal Remains Weak

Reduced 1983/84 oilseed supplies and a strong demand for oils led to sharply higher oilseed prices. Prices for 1984/85 are again likely to be affected more by oil demand than by meal. However, gains in consumption of protein meals can be expected because of low prices, better financial conditions in some importing countries, and larger supplies. Mexico will likely import 75,000 tons of soybean meal in 1984/85, following a year of no imports. Eastern Europe's soybean meal imports may rise 8 percent from the previous year. Also, Iraq is importing large quantities of U.S. soybean meal for its poultry industry.

In the EC, the price of soybean meal relative to corn has changed dramatically since last fall, with the relationship now favoring the use of soybean meal. However, a more significant relationship may be the ratio of soybean meal prices to domestic wheat prices, which favors wheat feeding. Also, the EC dairy reduction program and increased supplies of domestic oilseeds and grains will work to limit growth in soybean meal consumption to near a year earlier and well below disappearance of prior years.

Oil Demand Continues Strong

Low global oilseed output in 1983/84 severely limited vegetable oil supplies.

Meanwhile, economic recovery expanded demand. As a result, vegetable oil prices rose sharply during much of 1983/84, and carryin stocks for 1984/85 are small. However, production gains for a variety of oilseeds will lead to larger supplies and modestly lower prices in 1984/85.

Palm oil production has increased in recent months, recovering from an extended period of drought. Malaysia's 1984 production is forecast at 3.5 million tons, nearly 10 percent above the poor 1983 outturn. Output

will expand again in 1985, reaching 3.9 million tons and adding to world vegetable supplies late in 1984/85. With larger palm oil supplies likely, Rotterdam prices slipped from a peak of \$951 a ton in May to \$611 in September.

South American exports expanded rapidly in 1983/84, despite complex policy actions. Argentina exported 3 million tons of soybeans, more than double 1982/83, despite tax policies favoring product exports over beans. Part of the expansion was because of aggressive marketing to Europe. Larger oilseed supplies

Soybeans and products: World production, consumption, and net exports

Country	1982/83			1983/84			1984/85 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Soybeans									
Major exporters									
U.S.	59.61	30.16	24.63	44.52	26.75	20.15	51.75	27.22	21.50
Brazil	14.75	13.68	1.23	15.40	12.51	1.62	15.70	13.00	1.60
Argentina	4.00	2.11	1.42	6.20	2.98	3.01	6.00	3.50	2.10
China	9.03	3.62	0	9.76	3.75	.70	10.00	3.88	.70
Major importers									
EC-10	.03	10.98	-11.79	.09	9.35	-9.52	.15	9.65	-10.00
Japan	.23	3.85	-4.87	.33	3.83	-4.65	.33	3.92	-4.80
Spain	.01	3.04	-3.04	0	2.80	-2.80	.01	2.80	-2.80
Eastern Europe	.67	1.30	-.70	.65	1.23	-.67	.74	1.25	-.61
Mexico	.55	1.45	-1.07	.60	1.95	-1.44	.43	2.00	-1.55
Taiwan	.01	1.08	-1.27	.01	1.10	-1.34	.01	1.20	-1.35
USSR	.50	1.39	-1.10	.51	1.44	-1.10	.50	1.57	-1.30
Residual	3.91	5.37	-3.44	3.83	5.44	-3.96	4.55	5.91	-3.49
World	93.30	78.03		81.90	73.13		90.17	75.90	
Soybean meal									
Major exporters									
U.S.	24.24	17.52	6.45	20.65	15.91	4.93	21.83	16.60	5.08
Brazil	10.60	2.30	8.24	9.70	2.00	7.71	10.08	2.10	8.00
Argentina	1.70	.16	1.55	2.37	.20	2.10	2.78	.23	2.45
Major importers									
EC-10	8.76	15.34	-6.63	7.46	14.63	-7.17	7.72	14.64	-6.93
Eastern Europe	1.02	3.87	-2.88	.97	3.98	-3.04	.99	4.31	-3.30
USSR	1.06	3.76	-2.71	1.10	1.70	-.60	1.19	2.69	-1.50
Japan	3.00	3.18	-.18	2.96	3.04	-.18	3.04	3.21	-.10
Mexico	1.16	1.17	-.18	1.50	1.48	0	1.54	1.61	-.08
Residual	10.57	13.73	-3.66	10.56	13.92	-3.75	11.15	14.68	-3.62
World	62.11	61.03		57.27	56.86		60.32	60.07	
Soybean oil									
Major exporters									
U.S.	5.46	4.47	.92	4.93	4.35	.82	5.07	4.40	.68
Brazil	2.56	1.61	1.02	2.35	1.50	.99	2.50	1.55	.88
Argentina	.35	.07	.27	.49	.08	.38	.58	.09	.47
EC-10	1.91	1.49	.43	1.67	1.40	.33	1.66	1.32	.37
Spain	.54	.09	.42	.50	.06	.48	.54	.07	.45
Major importers									
India	.08	.61	-.54	.09	.74	-.75	.12	.82	-.60
Pakistan	0	.31	-.31	0	.35	-.35	0	.34	-.37
Eastern Europe	.22	.43	-.21	.21	.32	-.11	.22	.38	-.16
Iran	.01	.29	-.28	.01	.26	-.25	.01	.29	-.28
Morocco	0	.17	-.16	0	.17	-.17	0	.18	-.18
Residual	2.66	4.09	-1.56	2.80	3.97	-1.37	2.83	4.19	-1.26
World	13.79	13.63		13.05	13.20		13.53	13.63	

For soybeans, consumption refers to crush. Trade and consumption on marketing year except for Brazil and Argentina which are on an October-September year. F = forecast.

and crush capacity constraints were also contributing factors.

Brazil's policies were erratic in 1983/84, and they are likely to continue so this year. The Brazilian Government has announced an open trade policy for 1984/85, but safeguards will be used to protect the domestic market. Brazil's soybean exports for 1983/84 were around 1.6 million tons, up 21 percent from a year earlier, and they are likely to remain about the same for 1984/85.

China's soybean exports have also increased. Estimates for both 1983/84 and 1984/85 show shipments reaching 700,000 tons, more than twice the annual average for the previous 5 years. While most of these exports were to Japan, China may have sold a substantial quantity to the USSR.

U.S. Trade Prospects Mixed

Through October, U.S. soybean exports were about half the pace of the previous year. Early-season purchases were very large last year. The strong dollar and large competitor supplies are hurting this year's sales. Despite this year's slow start, with U.S. supplies ample and world demand somewhat improved, U.S. soybean exports for 1984/85 are forecast up 7 percent. The strong Argentine and Brazilian exports during 1983/84 eroded the U.S. share of world soybean trade to less than four-fifths, and only a small recovery is expected in 1984/85.

World soybean meal imports for the season may rise around 1.8 million tons, but remain well below 1982/83. With stiff competition from Argentina and Brazil, U.S. soybean meal exports for 1984/85, forecast at 5.1 million tons, will be only 2 percent above a year earlier.

U.S. soybean oil exports are expected to decline because domestic requirements will bid limited supplies away from exports. While a strengthened economy will stimulate domestic oil consumption, continued weak meal demand will limit crushings and available oil supplies. Exports are forecast at 680,000 tons, down 12 percent from a year earlier. Thus, the U.S. share of world soybean oil trade could decline from 22 percent last year to 18 percent in 1984/85. [Jan Lipson (202) 447-8855]

Meat

No Gain in Beef Next Year

World meat production should grow around 1 percent in 1984, led by gains in beef and veal. No growth is expected in pork output and only 2 percent in poultry meat, because higher feed costs and weak meat demand have kept output down. In 1985, growth in pork and poultry meat could be spurred by reduced feeding costs and improved economic conditions. However, beef production may not reach this year's level. Thus, total meat production will gain only around 1 percent.

Beef and Veal in Upheaval

Beef and veal output is estimated up almost 2 percent in 1984, as gains in the EC, the Soviet Union, and the United States have more than offset declines in Australia, New Zealand, and Brazil. Production in the EC has been rising in recent years, and because EC dairy producers are responding to the new supply control program by culling heavier and sooner than was anticipated, beef production could be up 7 percent. Next year, EC beef output should slacken but remain high, as adjustments to the dairy herd continue. The EC is pushing much of this extra beef onto the world market and probably will be the leading beef exporter in 1984 and 1985, thereby causing the other major exporters considerable concern. EC exports should decline in 1985 as output drops.

Beef and veal production

Country	1982	1983	1984 P	1985 F
1,000 metric tons				
United States	10,425	10,748	10,951	10,505
Canada	1,032	1,036	1,005	990
Mexico	1,381	1,229	1,318	1,381
Argentina	2,579	2,384	2,510	2,520
Brazil	2,400	2,400	2,200	2,300
France	1,698	1,764	1,880	1,827
Germany, Fed. Rep.	1,471	1,487	1,620	1,645
Italy	1,107	1,149	1,150	1,115
Total EC-10	6,601	6,837	7,302	7,095
Eastern Europe	2,454	2,426	2,506	2,457
USSR	6,618	7,011	7,200	7,300
Australia	1,677	1,389	1,224	1,350
Other	5,646	5,649	5,571	5,640
Total	40,813	41,109	41,787	41,538

P = preliminary. F = forecast.

Argentina is expected to increase output 5 percent this year. However, exports are dropping as domestic consumption expands more than production. Australia and New Zealand will show reduced output in 1984 as they rebuild their breeding herds, which have dropped steadily since 1976. Production and trade should both be up slightly next year, but the totals will probably still be the second lowest since 1974.

Lower Feed Prices To Help Pork Producers

Pork production may be about the same in 1984 as a year earlier but may increase 1 percent next year. Inventories, which rose during the last 2 years, are forecast to be down 1 percent at the beginning of 1985, as the drops in the EC, United States, and China offset increases in the USSR and Poland.

The EC pork sector has been hit hard by high feeding costs and poor demand. The increased supply of beef has also weakened demand for pork. Lower feed costs next year should bring producers some relief; inventories are likely to be rebuilt, and pork output may rise marginally.

Fresh Danish pork, after being banned from many countries during parts of 1982 and 1983 because of a hoof-and-mouth outbreak, has more than recaptured its earlier share of Japan's and the United States' imports. Danish pork exports to non-EC countries, accounting for 60 percent of the EC total,

should gain substantially in 1984. However, similar increases are not expected next year.

U.S. pork output is expected to be down 3 percent for 1984. Lower feed prices and improved hog prices should generate some increase in production in the second half of 1985, but output for the year is forecast to be about the same as in 1984. U.S. pork imports will rise around 30 percent this year, as Canada and Denmark take advantage of reduced U.S. output and relatively high prices—prices made even more attractive by the strong U.S. dollar. These same high prices, and competition from Canada, Denmark, and Taiwan, have also hurt U.S. exports to Japan, our major pork market.

Japan's pork output will likely be up 1 percent in 1984 and around 2 percent in 1985. While imports may gain 9 percent in 1984, no increase is forecast for next year. Most other Asian countries are expected to show small production increases next year, but Philippine producers will continue to be plagued by economic problems.

Feed problems and poor producer returns caused a 10-percent decline in Poland's hog inventories last year. However, some rebuilding is occurring this year and inventories should be up at the beginning of 1985. Thus, while output may drop 9 percent this year, it is likely to be up in 1985. Better quality feed, revised Government policies promoting more efficient feeding, increased allocations of feed for swine, and higher returns are spurring the turnaround. While inventories and production are continuing to climb in the USSR, reduced feed supplies will likely limit the gains.

Poultry Prospects To Improve

Poultry meat production is expected to grow 2 percent in 1984, and could increase more than 3 percent next year. However, except for the United States, most of the growth is occurring outside the major exporting countries. Brazil and France are experiencing contractions in production this year as export demand slackens. On the other hand, major importers in the Middle East, especially Saudi Arabia, have been increasing production and reducing imports. Uneven economic recovery has also dampened some

Pork production

Country	1982	1983	1984 P	1985 F
1,000 metric tons				
United States	6,454	6,894	6,653	6,648
Canada	833	852	860	865
Mexico	1,233	1,200	1,150	1,050
Germany, Fed. Rep.	2,670	2,731	2,784	2,740
France	1,610	1,590	1,589	1,577
Netherlands	1,165	1,201	1,225	1,240
Total EC-10	9,417	9,710	9,679	9,732
Eastern Europe	6,404	6,465	6,411	6,564
USSR	5,265	5,760	6,000	6,100
China	12,718	13,161	13,205	13,300
Japan	1,427	1,429	1,440	1,470
Other	5,107	5,300	5,342	5,422
Total	48,858	50,771	50,740	51,151

P = preliminary. F = forecast.

Poultry production

Country	1982	1983	1984 P	1985 F
1,000 metric tons				
United States	7,037	7,192	7,441	7,806
Canada	527	527	560	575
Mexico	561	538	546	557
Brazil	1,596	1,580	1,490	1,520
France	1,330	1,284	1,252	1,272
Total EC-10	4,368	4,309	4,294	4,373
Eastern Europe	1,754	1,770	1,862	1,891
USSR	2,425	2,596	2,700	2,800
Japan	1,209	1,270	1,326	1,360
Other	3,376	3,557	3,644	3,823
Total	22,853	23,339	23,863	24,705

P = preliminary. F = forecast.

countries' ability to import poultry meat or feed for domestic production.

Output this year may be up over 3 percent in the United States and 4 percent in the USSR. In the United States, lower pork supplies and a strong economic recovery have prompted large production. The USSR has traditionally relied on poultry production as a quick way to increase domestic supplies of meat, but the industry relies heavily on high quality feed. Thus, relatively limited growth is expected for this year and 1985.

U.S. Poultry Exports Decline Again

Export incentives of some competitors and high U.S. prices, compounded by the strong dollar, have hurt U.S. export prospects. Japan, the largest U.S. market for meat, is not expected to appreciably increase its poultry imports this year or next. However, some changes are taking place in the composition of the major suppliers. Other exporters' entry in the parts market in Japan and East Asia bodes ill for U.S. exports. The United States still supplies the lion's share of Japan's poultry imports (64 percent in 1983), but Thailand and Brazil are whittling away at the U.S. share and could create larger and larger niches for themselves in the future. [Linda M. Bailey (202) 447-4863]

Sugar

World centrifugal sugar production in 1984/85 is forecast at 97.5 million tons, raw value, up 2 percent from last season but lower than earlier expectations. Sugar consumption

is estimated around 96.1 million tons, up less than 1 percent. Global stocks, therefore, will continue to be very large through the end of the season. Ending stocks are estimated at 40 million tons, nearly 41 percent of consumption. Prices, reflecting the abundance, are likely to stay low in 1985.

The world price of raw sugar (f.o.b. Caribbean) averaged 4.7 cents a pound in October, up slightly from August and September. The October price is the lowest for that month since 1971. The world price for 1984 is likely to average 5 to 5.5 cents a pound, down from 8.5 cents the previous year. Prices in 1985 are expected to rise to 6 to 8 cents, but they could be higher, depending largely on 1985/86 crop prospects.

This season's world sugar output from cane is expected to account for 61.5 million tons or 63 percent of the total. Sugar from beets is estimated at 36.1 million tons. The forecast rise in 1984/85 sugar output is attributed to improved growing conditions in the cane areas of Australia and South Africa, and increased beet area and higher yields in the EC. sugar output in the EC is estimated at 12.8 million tons, 10 percent above a year ago.

Sugar production in the USSR this season is forecast at 7.8 million tons, 10 percent below last season. Transportation and storage of beets continue to be serious problems despite some improvements in recent years to speed shipments to processing facilities.

In Latin America, the two largest sugar producers, Brazil and Cuba, will account for two-thirds of the region's output. Brazil's output, estimated at 8.9 million tons, is about 1 million below 1983/84, but is still largest in the world. Cuba's output is reported at 8.2 million tons, the same as last season. In India, low grower prices are keeping sugar production stagnant at about 6 million tons, down from 9 million in the 1981 and 1982 seasons. Low returns to mills and growers in the Philippines have brought down production there by more than 20 percent, to about 2 million tons. Australia's raw cane output is estimated at 3.6 million tons, up nearly 6 percent. South Africa's output is expected to hit a record 2.4 million tons in 1984/85, following last season's severe drought. [Robert D. Barry (202) 447-8666]

Cocoa and Chocolate

Cocoa Bean Output Forecast Up

World cocoa bean production during the October 1984/September 1985 season is forecast at 1.74 million tons, up 14 percent from the poor 1983/84 outturn. Output in Africa (56 percent of world production) could be up more than 1.2 percent. Production is also expected up in South America (28 percent of global output), Asia and Oceania (10.5 percent), and North America (5.8 percent).

Output will increase in the Ivory Coast--the world's largest grower--as that country recovers from a 2-year drought. Production is also expected to increase in Brazil (the second largest grower) and other major producers such as Ghana, Nigeria, Malaysia, and Cameroon. Rising output in Malaysia reflects new areas coming into production. While 47 countries produce cocoa commercially, the largest 6 will produce nearly 80 percent of 1984/85's output, and the largest 12, over 92 percent.

The cocoa bean grind in calendar 1985 is forecast at 1.66 million tons, virtually the same as in 1984, and less than 1 percent larger than in 1983. Global use has increased from 1977 through 1984, partly in response to

declining prices. Grind increases are expected this year for Belgium, Canada, France, the United Kingdom, the Netherlands, West Germany, and the United States, reflecting economic improvement in most of these countries. Relatively high cocoa prices in 1984 may dampen use in 1985.

Cocoa production is expected to exceed use in 1985 by around 58,000 tons, following 2 years of inventory reductions. This year's New York cocoa bean prices (the average of the nearest 3 active futures trading months on the New York market) have fluctuated between a high of \$1.19 a pound in May and a low of 97 cents in July. Prices for the year are expected to average around \$1.07 a pound, compared with 92 cents in 1983. Prices seem likely to ease down to an average of 95 cents to \$1.05 for first-half 1985. [Fred Gray (202) 447-7290]

Cotton

1984/85 Production Up Sharply

World cotton production, at 80.7 million bales, is expected to be up 20 percent from 1983/84. Area is estimated to have increased 8 percent, while average yields are up 12 percent. Although almost every major

Cotton: World production, consumption, and net exports

Country	1982/83			1983/84			1984/85 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million 480-lb. bales									
Major exporters									
United States	12.0	5.5	5.2	7.8	5.9	6.8	13.3	5.3	6.0
USSR	11.9	9.2	3.4	12.3	9.3	2.8	12.5	9.5	3.0
Pakistan	3.8	2.5	1.3	2.2	2.0	0	3.7	2.3	.9
Egypt	2.1	1.2	.9	1.9	1.3	.7	1.8	1.4	.4
Turkey	2.2	1.6	.7	2.4	1.8	.6	2.6	1.8	.6
Central America	.8	.1	.7	.7	.1	.6	.7	.1	.6
Sudan	1.0	.1	.6	1.0	.1	1.0	1.0	.1	1.0
Brazil	3.0	2.6	1.0	2.5	2.4	0	3.0	2.6	.2
Mexico	.8	.6	.4	1.0	.5	.5	1.3	.6	.6
India	6.3	6.2	.5	5.9	6.3	.3	6.2	6.3	0
China	16.5	16.4	-1.0	21.3	16.0	.5	25.3	16.5	1.1
Major importers									
Western Europe	.7	5.6	-4.9	.7	5.7	-4.7	1.0	5.8	-4.7
Japan	---	3.3	-3.1	---	3.3	-3.3	---	3.3	-3.3
Eastern Europe	.1	3.3	-3.2	.1	3.5	-3.3	.1	3.6	-3.4
South Korea	---	1.6	-1.6	---	1.6	-1.6	---	1.6	-1.6
Taiwan	---	1.1	-1.0	---	1.2	-1.2	---	1.2	-1.2
Hong Kong	---	.7	-.7	---	.9	-.8	---	.8	-.8
Residual	6.2	6.3	+.8	7.5	6.6	+1.1	8.2	6.7	+.6
World	67.4	67.9		67.3	68.5		80.7	69.5	

Year beginning August 1, consumption is mill use. --- = negligible. F = forecast.

producing country is expected to increase output, most of the gain will be concentrated in the world's two largest producers--the United States and China. With area up 1.2 million hectares and record yields, U.S. production is 70 percent larger than in 1983/84. China's production may advance 4 million bales, as area expands 7 percent and yields rise 10 percent above the 1983/84 record. Pakistan, Mexico, and Brazil are also expected to show significant gains.

World mill use in 1984/85 may increase less than 2 percent from the preliminary estimate for 1983/84, with a 2.5-percent advance in foreign use offsetting lower U.S. use. China, Pakistan, and the USSR will account for most of the increase. However, the expected 3-percent increase in China's mill use will be well below its production increase. Thus, its stocks will continue to build--possibly to more than 15.5 million bales, or the equivalent of 94 percent of expected 1984/85 use. Stocks will also build in the United States, and the U.S. stocks-to-use ratio may climb to 42 percent, up from last year's 22, but still well below the 74 in 1982/83.

World trade may expand around 5 percent (0.9 million bales). But, with larger production in many competing exporting countries and stagnant demand by the major importers, U.S. exports are expected to decline 10 percent. The August-September U.S. export pace was about the same as last year. However, as competitor supplies enter the market this fall, exports will fall below a year earlier. The U.S. share of the market should be around 30 percent this year, well below the 35 in 1983/84. [Gerald R. Rector (202) 447-8912]

REGIONAL DEVELOPMENTS

United States

Economic Recovery To Continue

The current economic recovery is the strongest in the last 30 years. However, economic growth has slowed during the year. The gross national product rose at a rate of 8.6 percent in the first half, but second-half gains may fall to 2 to 4 percent. Disposable personal income per capita will be up close to 6 percent this year, with the sharpest

increases early in the year. In 1983, incomes rose less than 3 percent.

Increased business activity has helped to further reduce unemployment--it is averaging just over 7 percent this fall, compared with nearly 10 percent in 1983. Thus, growth in the economy is boosting consumer demand for food and fiber. Demand will continue to improve well into 1985 because business activity is expected to rise modestly.

Grain Supplies Up Moderately

Although crop production has rebounded sharply from 1983, grain supplies available for domestic use and export are up only moderately. The 49-percent increase in production is being partly offset by a 50-percent decline in beginning stocks. While grain supplies will be 9 percent larger than last year, they will still be about 12 percent smaller than the burdensome levels of 2 years ago.

Grain use is expected to increase because of larger exports and modest gains in food and feed use. The strong value of the dollar continues to dampen growth in trade. Recent increases in cattle feeding and further gains in broiler production will help raise feed use.

Higher ending stocks projected for 1984/85 will hold down crop prices. However, the ratio of ending stocks to use for corn and soybeans will likely be more favorable than in 1982/83, when prices were near the loan rate.

Meat Production Remains Large

Although a moderate reduction in meat production was expected this year, a combination of poor weather, a new dairy program that boosted cow slaughter, and farm cash flow problems increased slaughter. As a result, meat production in 1984 likely will top last year's record by about 1 percent. Increases in beef and broilers are offsetting a modest decline in pork production.

Meat output will remain large in 1985 because broiler producers are expected once again to increase production. The downswing in pork production that began in the second quarter of this year may be reversed by next summer, holding annual pork output about the

same as in 1984. However, sharply reduced slaughter of cows and nonfed steers and heifers in coming months is likely to more than offset small increases in fed cattle marketings, pointing to smaller beef output in 1985. While total meat production will probably remain large next year, higher consumer incomes and population growth will help raise livestock prices a little. [Donald Seaborg (202) 447-8376]

Canada

Canadians elected a new Government in September, replacing the Liberals with the Progressive Conservatives. The Conservatives are expected to favor less Government involvement in the economy, especially compared with the active role of the Liberals in recent years. However, major changes in agricultural policy are not anticipated. For example, the new Government has indicated it will support the previous Government's proposal for a national stabilization plan for red meat.

Farm Income Picture Looks Bleak

With low farm prices and serious drought this summer, the new Government is not inheriting a healthy agricultural sector. Net farm income for 1984 is expected to decline for the third year in a row, despite large Government payouts to grain and livestock farmers. Farm income in 1985 is also likely to drop.

Increased export volumes have partly offset low grain prices the past 2 years, but the drought will severely curtail exports in 1984/85. Earlier this year, western grain farmers received Can\$100 million from the Western Grain Stabilization Program, and just recently they received an additional payment of Can\$123 million, for an average per farmer of Can\$1,600. Another payment is likely for 1984/85 because of the drought.

The outlook for livestock is also not promising. Midyear cattle inventories were down 3 percent from the previous year. The drought left feed supplies tight and pastures in poor condition, prompting concerns about distress slaughter. A Can\$61-million program has been established to prevent liquidation of

breeding herds. The beef herd is already at its lowest in 10 years.

On the other hand, hog and pork production continues to expand. Live hog exports to the United States increased during the summer as a result of strikes in the Canadian meatpacking industry and the strong U.S. dollar. Hog exports are expected to drop in 1985, but they will remain high by historical standards.

U.S. Agricultural Exports Rise Slightly

U.S. agricultural exports to Canada in FY 84 increased 3.5 percent from last year to \$1.9 billion, but remained below FY 81's \$2.1 billion record. U.S. shipments of horticultural products continue to account for about half of total exports. U.S. exports of beef and poultry grew substantially, reflecting reduced cattle slaughter and unexpectedly heavy demand for poultry in Canada. The value of U.S. exports of grains and oilseeds was buoyed by higher prices, but volumes continued their long-term decline. For FY 85, U.S. agricultural exports are forecast to decline slightly. [Carol Goodloe (202) 447-8378]

Western Europe

In spite of an improving economic outlook in most member countries, the EC has not yet been able to agree on resolution of its 1984 budget overrun. The situation is overhanging the EC Commission's preparation of its 1985 price package proposal, now underway, as well as the unfinished negotiations on expansion of the EC to 12 members by January 1986. At the same time, record production of grain may increase budgetary pressure in the short term.

Budget Issue Hinders Action

As the end of 1984 approaches, the EC's total supplementary budget needs have yet to be approved. That leaves the EC with a budget overrun of \$0.5 billion. The deficit is to be covered through national contributions, but resolution has been impeded by the United Kingdom's refusal to approve the supplemental financing until the European Parliament releases the \$560 million rebate owed the UK for 1983. Without supplemental budget approval, the EC will carry the budget

problem over into the period of planning the 1985 agricultural price package, encumbering those deliberations.

The vexatious budget issue has already cast its shadow over negotiations on EC membership for Spain and Portugal. The accession date is in jeopardy because Spain and the EC disagree on a number of issues, narrowing the possibility of timely ratification by all 10 member parliaments. The EC is concerned about the effects of Spanish production on costly EC wine and olive oil surpluses, as well as on EC fruit and vegetable trade.

Livestock Sector Threatens Budget

Except for 1984's decrease in wine production and consequent lower wine storage and disposal costs, the short-term outlook in major commodity sectors is not promising for the EC's budgetary concerns. Notably, the beef surplus has been growing, since consumption has been stagnant as the EC has come out of its economic doldrums. Also, beef output is up because of cow cullings resulting from the imposition of a milk delivery quota in 1984.

The dairy sector, which accounts for about one-third of EC agricultural expenditures, threatens to increase financing needs in spite of the quota system. At present, the EC Commission plans to increase the price of milk 5 percent next year. Although the Commission hopes to restrain or reduce prices in some other sectors, these will probably not be enough to offset increased dairy outlays.

Even with the new milk delivery quota, the EC is producing 20 percent more milk than it needs. The Commission has decided to reduce the 1.25-million-ton butter surplus by one-third, through subsidized sales to EC consumers and special subsidized sales to the USSR and the Middle East. About 200,000 tons will be set aside for each purpose. Since the subsidies will amount to more than the cost of storage in 1985, budget costs for dairy will rise by the difference. (For additional discussion of the EC's dairy surplus, see the special article in this issue.)

Wheat Stocks and Exports To Rise

The EC is also confronted with record grain production. Estimates of production have risen steadily, to over 148 million tons, 20 percent above last year's depressed production and 13 percent above 1982's record. This is expected to push more grain into exports and stocks, both of which entail added budgetary costs that are likely to more than offset the effect of a possible 3-percent decline in 1985/86 grain price supports.

The use of wheat for feed may rise as much as 2 million tons in 1984/85, as prices make wheat more attractive than barley and corn. Also, feed use of wheat will be indirectly promoted by an EC decision to double the per ton deposit payment required on export license to make traders honor their export contracts. Moreover, the EC plans to introduce quality standards for exported wheat. Low-quality wheat will be disadvantaged, since exporters may lose their export license deposits for attempting to ship substandard wheat. Such wheat will probably move into internal feed use.

Increased feed use notwithstanding, exports of wheat to non-EC destinations in 1984/85 are expected to rise about 6 percent above last season, to a record 18.5 million tons. The EC Commission has already stated that it will retain flexibility on its self-imposed 14-percent share of the world soft wheat market. If EC prices fall below world prices, export subsidies will not be necessary, and unsubsidized exports likely would be viewed as falling outside the 14-percent guideline.

In spite of consumption and export gains, wheat stocks in the EC may rise over 5 million tons, to a record 14.1 million, by the end of the 1984/85 marketing year.

As wheat becomes more competitive with barley for feed use, barley exports are likely to rise. In the case of barley, the EC is not hampered by any pledge to maintain a "fair share" of world trade. Barley exports to non-EC destinations may go from 3.2 million tons in 1983/84 to 5.6 million this marketing year.

U.S. Exports May Fall Again

Increased feed use of wheat in the EC will boost the grain share in compound feed rations. This coincides with a mixed feed use decrease owing to a 3-percent decline in hog numbers, a 1-percent decline in cattle, and reduced concentrate feeding because of the milk quota. Thus, EC imports of grain and some low protein feedstuffs may fall during 1984/85, despite declining prices and a possible rise in the value of European currencies against the U.S. dollar. Also, less Durum wheat imports will be needed because of substantially increased 1984 production in Italy and Greece.

Should U.S. exports to the EC drop, the decline will probably not be as large as in FY 84, when the volume of soybean meal and soybean exports fell 43 and 37 percent, respectively. The decline in exports of those commodities led to a 8.7-percent drop in U.S. farm sales to all Western Europe, to \$9.3 billion, the lowest since 1978. Increases in crop production in Spain and several other Western European countries are expected to dampen U.S. exports to non-EC Western Europe during the coming year. [Miles Lambert (202) 447-8289]

Australia

Crop Sector Booming

The weather has been generally favorable for the wheat crop this spring, and 1984/85 production is estimated at 18 million tons, well below last year's record but the third largest harvest ever. October rains interfered with early harvest operations and reduced quality in Queensland and northern New South Wales, where most of the hard wheats are grown. Australia's main wheat harvest occurs in December and January. The Guaranteed Minimum Price for 1984/85 wheat was set at \$A145.64 a ton, down from \$A150 last year, reflecting declining prices on the world market.

Exports were record large in 1983/84, but below the goal of the Australian Wheat Board (AWB). In New South Wales, labor problems have been slowing exports, exacerbating congestion at country elevators. Storage and handling difficulties are likely at harvest,

Australian crop production

Crop	1979/80	1982/83	1983/84	1984/85F
	1,000 metric tons			
Wheat	16,188	8,876	22,063	18,000
Barley	3,703	1,939	4,937	4,800
Other grains	3,129	2,630	5,254	4,240
Lupins	78	199	369	655
Sunflowerseed	142	104	156	208
Other oilseeds				
& field peas	396	288	514	624
Cotton lint	83	101	141	180

F = forecast.

especially if harvesting is rapid. With huge stocks at the beginning of the 1984/85 marketing year, wheat supplies may be down less than a million tons, despite the smaller crop. Thus, exportable supplies remain very large, and the AWB will take an aggressive marketing position.

Production of oilseeds and legumes is forecast to expand 43 percent this year. Lower-than-expected winter grain plantings freed area for summer crops, and abundant winter and spring rains have restored irrigation supplies and soil moisture in most regions. Sunflower area is estimated up 50 percent, restrained from further expansion only by seed supplies. Area planted to cotton could rise almost 30 percent because of favorable returns. Lupins (a legume used for feed) are becoming increasingly popular in pasture/crop rotations because of the development of improved varieties and recognition of lupins' beneficial effect on subsequent grain yields. A large portion of the crop is exported; 1984/85 exports are forecast at 400,000 tons.

Dairy Returns Weaker

Low export prices for dairy products have hurt Australia's industry, and the national herd has declined 3.5 percent over the past 5 years. However, better management and feeding practices, together with good pasture during the past two seasons, have improved yields per cow. Production is expected to remain about 5.9 billion liters in 1984/85.

Returns in the fluid milk market should improve slightly, but prices received for manufacturing milk are expected to decline more than a tenth. Thus, the value of milk

production is estimated down 5 percent from 1983/84's record \$A1.12 billion. The value of dairy product exports is forecast to decline marginally because of lower prices. [Sally Byrne (202) 447-8376]

Japan

U.S. Agricultural Exports Rebound

U.S. agricultural exports to Japan in FY 84 reached a record \$6.9 billion, exceeding the previous high of \$6.7 billion in 1981. Most of the gain came from feed grains, which climbed to a record 15.7 million tons. Corn exports were a record 13.8 million tons, as sales of corn from other exporting countries fell off because of supply and quality problems. Sorghum exports doubled from 1983, to 1.5 million tons, and barley shipments jumped to 462,000.

Wheat sales rose slightly to 3.45 million tons. Soybean shipments declined 10 percent to 4.23 million, however, as Japanese crushers worked down high soymeal stocks. Exports of cotton, up 19 percent from 1983, fell short of 1982's record 361,000 tons. Tobacco sales were off 10 percent from 1983.

U.S. agricultural exports to Japan are forecast to decline somewhat in 1985, principally because of projected lower commodity prices.

Livestock Production and Imports Up

Most sectors of Japan's livestock industry are expected to show gains in 1984, but to slow somewhat in 1985. Beef and veal output will likely expand about 7 percent in 1984 because of higher-than-normal slaughter of Wagyu cattle (the native Japanese breed). Beef slaughter and production are projected to decline in 1985.

Pork production is projected to increase 1 percent in 1984 and about 2 percent in 1985. While consumer purchases of pork are stagnant, pork consumption for processing uses has been growing, and this trend is expected to continue. Broiler output is likely to expand about 5 percent in 1984 but to slow in 1985.

Imports of beef and veal are likely to increase 10 percent in 1984, to 215,000 tons

Japan: Production of major livestock products

Product	1983	1984 1/	1985 2/	<u>1984</u> <u>1983</u>	<u>1985</u> <u>1984</u>
1,000 metric tons					
Beef and veal	495	530	510	7.1	-3.8
Pork	1,429	1,440	1,470	0.8	2.1
Milk	7,036	7,175	7,320	2.0	2.0
Broilers	1,143	1,200	1,234	5.0	2.8
Eggs	2,085	2,127	2,129	2.0	.1

1/ Preliminary. 2/ Forecast.

(carcass weight). As a result of the recent U.S.-Japanese understanding on high-quality beef, the U.S. share could reach 30 percent, compared with 27 last year. Pork imports are forecast up significantly in 1984, with Denmark and Taiwan gaining larger market shares than last year.

Poultry meat imports are expected to remain steady at 105,000 tons. Higher U.S. prices, the stronger dollar, and subsidized competition are affecting sales of U.S. poultry to Japan, resulting in a declining market share. Sales of poultry from Thailand and Brazil have expanded.

Rice Crop Largest in 4 Years

According to an October 15 rice crop survey, Japan's 1984 production is estimated at 10.8 million tons, the largest crop since 1979. Record yields and a 2-percent increase in harvested area contributed to the large output. The favorable production will ease Japan's tight supply situation, which caused it to import 137,000 tons of rice from South Korea during August-October 1984. [Lois A. Caplan (202) 447-8860]

USSR

Imports Maintain Feed Supplies

This season's drought reduced prospects for the 1984 Soviet grain crop. Drought damage in some areas was so severe that fields were abandoned. Poor cropping practices were cited as the reason for the low outturn from fallowed fields. Transportation problems complicated grain harvesting and movement from fields to procurement centers.

With a grain crop as poor as 170 million tons, Soviet imports in 1984/85 (July- June) are now projected at a record 50 million tons, with 26 million in wheat, 23 million in coarse grains, and 1 million in miscellaneous grains and pulses. The U.S. market share is projected to exceed last year's 32 percent. Between July 1 and November 22, U.S. sales exceeded 15 million tons.

With the poor 1984 grain crop and a decline in forage (though this is still expected to be the second-best forage crop), livestock productivity will likely drop in the first half of 1985. With feed supplies already tight going into 1985 and record numbers in most livestock categories, livestock will have to be placed on reduced rations. A cold winter would complicate the situation even further. Some improvements may be seen in the second half of 1985, if next year's grain and forage crops show substantial gains.

Fall sowing was planned this year on 40 to 41 million hectares, with 36 million devoted to grain--areas which are comparable with those in recent years. By October 22, total crop seeding had been carried out on 38.2 million hectares, with 33.2 million in winter grains. Given the relatively fast pace in seeding, the planned goals very probably were attained. This year, 11.5 million hectares of winter grains were to be sown on clean-fallowed land. Fall plowing, so far completed on 80 percent of the planned 110 million hectares, is also a positive factor for next year's grain crop.

Plenum Considers Land Reclamation

The disappointing outturn of some crops, especially grain, in recent years prompted the Central Committee of the Communist Party to hold a plenum (general meeting) devoted to agriculture on October 23. The plenum underscored the problems facing the agricultural sector and explored ways to improve and increase output. The plenum's main focus was discussion of a land improvement program extending to the year 2000.

This plan was called a "decisive factor" in expanding future agricultural production, especially grain, which was identified as "the key problem." In language remarkably similar to that used in the May 1982 plenum on

agriculture, General-Secretary Chernenko noted that many cities in the USSR still face acute shortages of foodstuffs, especially meat.

In regard to grain production on reclaimed land (irrigated and drained), the plan calls for 32 million tons by 1990 and 55 to 60 million by 2000. In 1983, grain output from 7 million hectares of reclaimed land reportedly reached more than 20 million tons, about 4 percent of total grain. The area of reclaimed land seeded to grain has grown about 2.5 million hectares in the past 10 years, and production has almost doubled. Based on this performance, 32 million tons by 1990 appear to be reasonable, even if area expansion continues only slowly, as in the past.

In the plenum's general report, General-Secretary Chernenko implied that gross agricultural production this year will fall 2 billion rubles below 1983's record 135 billion. The good gains made in output of most livestock products this year evidently will not compensate for the deterioration in crop output, especially with the reported "substantial shortfall in the grain harvest." Other crops, such as forage and potatoes, are also expected to fall somewhat below 1983. Raw cotton may make a small gain. Sunflowerseed production could remain near last year's output. Sugarbeets are expected to fall 5 to 10 percent. Fruit and vegetable production, however, should reach a record. [Angel O. Byrne (202) 475-4505]

Eastern Europe

Crop production in Eastern Europe will be significantly higher in 1984 than in 1983, with grain and oilseeds showing record outturns. However, little increase is expected in the livestock sector; inventories will continue to stagnate through 1985, and meat supplies will be tight, especially in Romania and Poland. Farm imports, which declined in fiscal 1984, will continue to drop in 1985, because of the record 1984 crops and government-imposed constraints. U.S. agricultural exports to Eastern Europe registered a 10-percent decline in value in the last fiscal year, and little improvement is expected this year.

Record Grain and Oilseed Crops Likely

The 1984 grain crop is currently estimated at 108.7 million tons, 2 percent

higher than the 1982 record. With the help of a mild winter, small grains did especially well, with the wheat crop up 12 percent. However, coarse grain output is expected to be just 2 percent higher than 1983 because of cool, wet weather that delayed spring planting.

Oilseed production in 1984 is estimated at 4.6 million tons, up from 3.8 million in 1983. A 29-percent increase in the rapeseed crop—72 percent in Poland—is the main contributor to that increase. Also, soybean and sunflowerseed production will exceed 1983 by 6.5 and 7.5 percent, respectively. The improvements mostly came from higher yields, as soybean area actually declined and sunflower area rose only about 3 percent. Sunflowerseed production increased greatly in Yugoslavia, which is finally seeing some progress in combating the fungal disease phomopsis. The fungus has drastically reduced the crop in recent years.

Livestock Production Stable

The livestock sector, which has not grown significantly since 1982, is not expected to improve much in 1984 or 1985. Feed supplies will remain tight, as better domestic oilseed production is offset by continued efforts to reduce imports. Only Poland will see any significant increase in livestock inventories; however, after the severe declines in 1983 and 1984, 1985 inventories will still be well below those of 1982.

Overall, a 1-percent increase is expected in meat production in 1984. Meat supplies will continue to fall short of demand in Poland and Romania. In Yugoslavia, forced slaughter caused by high corn prices has led to an excess supply at present, but the resulting decline in inventories could lead to tight meat supplies in 1985.

Farm Imports Continue To Decline

As a result of the bumper crop in 1984, almost no wheat will be imported by the countries of Eastern Europe; coarse grain imports will most likely remain the same. Soybean imports, down 10 percent in FY 84 from FY 83, may decline further this year because of the good 1984 crop.

Protein meal imports, on the other hand, increased about 6 percent in FY 84 and are

expected to expand again in FY 85. The main source of the increase is Poland, which is expected to import 800,000 tons of meal, up from 546,000 in FY 84. Poland needs this meal to realize its planned recovery in livestock production, and with its huge rapeseed crop it does not have the crushing capacity for imported soybeans.

U.S. exports to the region declined 10 percent in FY 84 to \$741 million. The biggest drop was in coarse grains, down to 902,000 tons, from 1,560,000 in FY 83, primarily because the Germany Democratic Republic turned to Canada and Austria for its needs. Because of the record 1984 crop and continued competition from Canada, no increase in U.S. coarse grain exports is expected in FY 85.

U.S. exports of soybeans fell from 789,000 tons in FY 83 to 720,000 in FY 84, while meal exports rose from 360,000 to 451,000. Fiscal 1985 may see a further decline in U.S. soybean exports. However, meal exports may rise because of increased CCC credit to Yugoslavia (\$25 million, from \$11 million in FY 84) and the expected jump in Polish purchases. [Nancy J. Cochrane (202) 447-4221]

China

China's agricultural and industrial sectors continue to grow at a rapid pace this year, and per capita income will rise again. Grains, oilseeds, cotton, meat, milk, eggs, and aquatic products will surpass last year's remarkable records. Three consecutive record grain harvests, along with China's limited storage facilities, have been responsible for the country's failing to fulfill the U.S.-China grain trade agreement. Large stocks have also led to growing exports of corn, cotton, and soybeans. U.S. agricultural exports to China may be down slightly in FY 85 because of somewhat smaller grain shipments.

Another Record Crop in 1984

The recent surge in crop output has come from good weather; better crop varieties, such as hybrid rice; the household contract incentive system; higher commodity prices; more use of chemical fertilizer; and greater effort to irrigate and drain fields. In the last

China: Production of major agricultural crops

Year	Rice	Wheat	Coarse grains 1/	Cotton	Oilseeds 2/
Million metric tons					
1978	136.9	53.8	79.1	2.2	16.4
1979	143.7	62.7	83.1	2.2	17.4
1980	139.9	55.2	84.2	2.7	20.2
1981	144.0	59.6	80.8	3.0	24.5
1982	161.6	68.5	83.5	3.6	27.1
1983	168.9	81.4	92.4	4.6	28.6
1984 3/	175.0	85.0	94.5	5.5	30.2

1/ Includes corn, sorghum, millet, barley, and oats. 2/ Includes soybeans, cottonseed, peanuts, rapeseed, and sunflowerseed. 3/ Estimates.

6 years, grain production grew almost 100 million tons, wheat and rice accounting for more than 70 percent of the increase. China's 1984 wheat output is now estimated at 85 million tons. Rice production will also surpass the 1983 record and reach 175 million tons.

Cotton output will reach 25.3 million bales (5.5 million tons) in 1984, a 150-percent jump from 1978. Yields are up about 11 percent from last year, and expanded area contributed the rest of the increase.

The oilseed outturn may grow to 30.5 million tons in 1984, about 1.8 million over 1983. All oilseed crops except rapeseed are expected to show increases, with cottonseed showing the largest growth. Rapeseed production will drop to 4 million tons, nearly 300,000 below the previous year.

Trade Agreement Not Fulfilled

China again this year will likely fail to buy the minimum 6 million tons of grains specified in the 4-year U.S.-China grain trade agreement, which ends in December 1984. Last year, China bought only 3.8 million tons of U.S. grain and attributed its failure to the textile dispute. Grain imports were lower this year because of consecutive bumper harvests, some improvement in the transport of domestic grains, and limited storage facilities.

U.S. Exports Rise Slowly

U.S. agricultural exports to China rose from \$546 million in FY 83 to \$692 million in FY 84. The increase was mainly because of the expanded wheat exports, which increased from 1.9 million tons in FY 83 to 4.6 million

last year. U.S. sales of cotton and soybeans remained negligible; to a limited extent, China is now competing with the United States in Asian markets for sales of these crops.

Sales of U.S. agricultural commodities are expected to decline slightly in FY 85. Farm exports are now projected at near \$650 million, down 5 percent. Nearly all will be wheat. U.S. exports of wheat to China should stay at about the 1984 level, even without a long-term agreement between the two countries. China's record cotton, soybean, and other oilseed crops suggest imports of these products from the United States will remain negligible. However, U.S. exports of animal breeding stock and other miscellaneous commodities should be about the same.

[Francis C. Tuan (202) 447-8676]

South Asia

Good Grain Harvests Likely

India's 1984/85 rice crop is estimated at 58.5 million tons. With good conditions for planting wheat during November-December, total food grain production is forecast near 1983/84's record-shattering 151.5 million tons. Pakistan's rice crop is estimated at a near-record 3.5 million tons, and favorable sowing conditions should lead to a strong rebound in wheat production following last year's setback. Record rice production is also expected in Sri Lanka. The only significant setback is forecast in Bangladesh, where severe flooding damaged the 1984/85 rice crop, and food grain production is expected to drop about 3 percent.

Food Grain Imports To Drop

South Asian wheat imports are forecast to drop from 5.7 million tons in 1983/84 (July/June), to about 3.5 million in 1984/85, with the U.S. share falling from 2.3 million to about 1.1. India will halt imports and instead seek to export 1 million or more tons of surplus wheat, likely to the Soviet Union and neighboring South Asian countries. Record 1983/84 production and procurement, combined with a drop in demand for subsidized cereals, have boosted Indian wheat stocks well above target and total grain stocks beyond storage capacity. With good 1984/85 harvests, stocks are likely to continue to grow.

Because rice stocks remain relatively tight, rice exports will stay small, and 500,000 tons of imports are projected for 1985 if world prices remain low. Imports were about 800,000 tons in 1984.

Following the poor 1984 harvest, Pakistan is expected for the first time in 3 years to import wheat for domestic use, in addition to the aid received to help feed Afghan refugees. A recent agreement with Bulgaria, in which Pakistan will receive 300,000 tons of Australian wheat in barter for fertilizer, may satisfy 1984/85 needs if the outlook for the 1985 wheat harvest remains good. Pakistan's 1985 rice exports are forecast slightly below 1984's 1.20 million tons.

Bangladesh's grain imports are expected to jump to 2.6 million tons in 1984/85 because of a poor rice harvest and depleted stocks. Wheat imports are projected to rise marginally to 1.9 million tons, while rice purchases should nearly triple to about 700,000. Commercial purchases of about 1 million tons of grain will severely strain Bangladesh's foreign reserves. Sri Lanka's rice and wheat imports are expected to show little growth in 1985, if the record rice crop materializes.

Edible Oil Imports Likely To Drop

India's 1984 edible oil imports are now estimated at a record 1.6 million tons, despite record domestic production. The unusually large purchases were due to strong demand and the need to control domestic prices and build stocks. Peanut production is expected to drop to about 6.5 million tons in 1984/85, but total 1985 oil production is forecast near 1984's. Imports are projected at 1.4 million tons in 1985 because of high stocks, weaker demand, and less pressure on domestic prices.

Pakistan's 1985 oil imports are projected to rise 8 percent to 710,000 tons, with a rebound in cottonseed production limiting growth in import demand. Soybean oil recaptured a dominant share of India and Pakistan's imports in 1984, but improved supplies of palm oil are likely to reduce the soybean oil share in 1985.

Pakistan's 1984/85 cotton harvest is now estimated at 3.7 million bales (480 pounds each), 70 percent above last year's pest-damaged crop. Cotton imports will end,

and exports are projected to recover to 1 million bales. India's cotton crop is expected to rebound to 6.2 million bales, but tight domestic supplies will limit exports and may necessitate about 150,000 bales of imports. [Maurice R. Landes (202) 447-8229]

Middle-Income East Asia (South Korea, Taiwan, and Hong Kong)

U.S. Farm Sales Rise with Region's Export-Led Recovery

The strong economic recovery that began in the United States in early 1983 gave a powerful boost to the export-oriented economies of East Asia. Their high U.S. export market shares helped these economies achieve much more rapid growth than in most other regions of the world.

Higher incomes raised U.S. agricultural exports to the region from \$3.18 billion in FY 82 to \$3.29 billion in FY 83 and an estimated \$3.63 billion in FY 84. Particularly in FY 83, rising consumer demand for livestock products in Taiwan and South Korea led to sharply increased imports of U.S. feed grains and soybeans. In FY 84, elimination of excess hog numbers in South Korea and the substitution of lower priced grains for U.S. corn led to a drop in U.S. feed grain exports to the region. But, high unit values helped cushion the effect on export values. U.S. cotton exports to the region rose strongly in FY 84, as textile producers bought raw materials to meet domestic and export demand for their products.

U.S. economic growth is expected to slow in FY 85, producing a corresponding slowdown in income growth in East Asia. The latter, together with a likely drop in the price of major commodities, is expected to lead to only marginal growth in the value of U.S. agricultural exports to the region.

Rice Supplies Ample in Region

The South Korean Ministry of Agriculture and Fisheries announced in October a 5.68-million-ton rice harvest. This year's production exceeds 1983 output by about 5 percent and is the largest since 1978. Except for a small amount of rice that North Korea donated to flood victims in the Seoul area,

South Korea this year has imported no rice for the first time since 1978.

Surplus rice production continues to be a problem in Taiwan. This year's production was down some, but stocks were still burdensome. Since 1977, Taiwan has been subsidizing rice exports, creating a contentious issue with U.S. rice exporters. A 1984 U.S.-Taiwan agreement will limit Taiwan's exports during 1984-88 to 1.375 million tons. Taiwan also initiated a "Six-Year Rice Diversion Program" this year to encourage farmers to plant other crops.

Hong Kong Agreement Unlikely To Affect U.S. Farm Exports

In September, China and Great Britain agreed on the transfer of Hong Kong to Chinese rule in 1997, when Britain's lease on the New Territories expires. While reserving the right to station troops there, China has made assurances that Hong Kong will retain its present social and economic system for at least 50 years after 1997. The agreement should allow for a stable transfer of power and provide a more favorable political and economic climate in the interim. In the short run, these developments are not expected to affect the \$400 million in U.S. agricultural exports to Hong Kong. [William Coyle (202) 447-8229]

Southeast Asia

Thai Corn and Cassava Supplies Set Record

Despite declining prices and continuing crop diversification efforts, Thailand's 1984 cassava production may reach 20 million tons (8 million tons of tapioca pellets and chips), up 10 percent from last year. Exports of pellet and chips to the EC, Thailand's major market, were limited by quota to 5.38 million tons in 1984, and only about 500,000 tons were exported to non-EC countries. Large stocks and continued weak prices may lead to a drop in cassava production in 1985.

Thailand's 1984/85 corn crop is still forecast at a record 4.5 million tons, with exports for that year projected at an alltime high 3.1 million. Rice exports are placed at a record 4.40 million tons in calendar 1984.

However, rice production is forecast to fall 9 percent to 11.6 million tons in 1984/85 because of poor weather. Therefore, exports may drop to 3.9 million tons in 1985. In an effort to curb imports and narrow the trade deficit, the Thai baht was devalued 14.8 percent in November, a move which may enhance the competitiveness of Thai exports.

Malaysian Palm Oil Also a Record

Malaysian palm oil production is rebounding sharply and is forecast at a record 3.5 million tons in 1984. Output is projected to surge to 3.9 million tons or more in 1985, based on good weather and additional mature trees. Palm oil exports are estimated to rise from 2.9 million tons in 1984 to a record 3.3 million or more in 1985, and provide significantly greater competition for other oils in world markets.

Huge Rice Crop Limits Imports

Indonesia's 1984 rice crop is estimated at 24.8 million tons, 3.3 percent above last year's record, mainly because of excellent weather with an extended rainy season. Rice imports in 1984 will fall more than 50 percent to about 500,000 tons. With a good monsoon for the 1985 main crop, rice imports are projected to decline to about 400,000 tons in 1985. Record rice harvests and high retail prices of wheat products are expected to hold Indonesia's wheat imports near 1.6 million tons in 1984/85, slightly below 1983/84.

Despite unusual flooding, drought, and pest infestation, the 1984/85 rice crops in Vietnam and Kampuchea are estimated near last year's. Rice supplies are expected to remain adequate in Vietnam, but Kampuchea has appealed for urgent food aid. Laos' 1984/85 rice crop is estimated to be up 8 percent from last year's poor outturn, but the United States has provided 5,000 tons of emergency rice to help meet continued shortages.

IMF and Philippines Near Agreement

In mid-October, the Philippines agreed to the International Monetary Fund's major conditions for a \$630-million standby agreement to ease its balance-of-payments problems. However, disbursement is contingent on debt rescheduling with creditor

banks. The agreed removal of several foreign exchange controls caused the peso to depreciate 8 percent against the dollar. Depreciation and inadequate credit could continue to dampen farm imports, including imports of U.S. wheat and tobacco.

The Philippines' 1984/85 rice crop is estimated at 5.3 million tons, up 4 percent from last year. Rice imports are projected to surpass 150,000 tons in 1984/85 (up from 10,000 in 1983/84), while wheat imports remain near the previous year's 831,000 tons.

Typhoon Ike damaged the sugarcane and coconut crops in early September. Sugar production, already hurt by lack of production credit, is now expected to fall 20 percent to about 1.9 million tons. Copra production, already hit by last year's drought, is expected to drop 22 percent. Coconut oil exports are running 40 percent below last year, with recovery unlikely until at least mid-1985. [Jitendar Mann (202) 447-8229]

Sub-Saharan Africa

Food Emergency Continues

Poor 1984 harvests in several African countries have increased 1984/85 food aid needs. The largest declines have come in East Africa, where Kenya, Sudan, and Ethiopia experienced drought during their main growing seasons. In the coastal countries of West Africa, 1984 harvests are up considerably following good rains, although the situation is mixed in the Sahel. Drought-related food shortages are most severe in Niger and Chad. Within Southern Africa, where harvests were completed earlier in the year, food supplies in Mozambique are precarious. However, this region's import needs have decreased slightly because of a better-than-expected corn crop in Zimbabwe.

World Responds to Famine

In recent weeks, worldwide attention has focused on the disastrous food crisis in Ethiopia, one of the largest and most rugged countries in Africa. Thousands of hunger-related deaths have been reported; people have been flooding into feeding camps, as farm food supplies have dwindled. Costly airlifts have been undertaken by the United States and other members of the international

community to move food that had piled up at Ethiopia's ports to camps in the interior. More food aid, vehicles and equipment, medical supplies, and other support are currently being donated. Nevertheless, the situation could worsen, with the Ethiopian Government estimating that at least 7 million people are at risk of starvation unless they receive relief supplies.

Famine developed as a result of continued drought in parts of the country, compounded by civil warfare and overwhelming logistical problems. In some districts, initial reports indicate that the 1984 grain harvest was down 80 percent from normal. Analysis of food availability in Ethiopia is difficult at best in the context of predominantly subsistence production, uncertainty about the size of the population, and many political sensitivities. Separatist movements have been active for many years in Tigre and Eritrea provinces, two of the worst affected areas, illustrating one of the political dimensions to this natural disaster.

Other Countries Face Crises

Sudan is also suffering from a severe drought, affecting much of the north of the country. The sorghum harvest may reach only two-thirds of an average crop, and wheat output may be less than half of normal. Sudan has little foreign exchange and therefore relies on food aid to meet its requirements. Grain consumption may drop because of reduced availability and low consumer purchasing power as prices escalate. Although Kenya's crops were also ravaged by drought, food supplies are likely to remain adequate because, in addition to food aid, it has a larger commercial import capacity and better logistics (see the June issue of *World Agriculture Outlook and Situation*).

Grain import requirements in the landlocked Sahelian nations of Chad, Niger, and Burkina (Upper Volta) are estimated at 700,000 to 800,000 tons. Handling capacity at the ports in Togo and Benin will be critical in shipping food to both Niger and Burkina, as projected needs are several times the peak of imports reached in the mid-1970's. The situation in Chad and Niger is complicated by the closure of Nigeria's borders during a currency exchange last April. The Nigerian Government continued the closure to reduce

smuggling. Discussions concerning the opening of the borders for food aid shipments are now being held with Nigerian officials. Nigeria's ports are important for transshipping food aid. Also, Nigerian grain normally moves through unofficial channels to neighboring countries. Chad's 1984/85 food aid needs will be significantly above last year's, because of below-normal rainfall in the major producing areas. Aid for Chad will probably be shipped through Cameroon.

In Mozambique, continued insurgency has hampered food distribution, while imports--chiefly aid--have been lower than hoped for, meaning that overall supplies are extremely tight. No improvement can be expected until the next harvest starts in April. Even with improved rainfall, guerrilla disruption and insufficient seed could still hold back domestic production. [Peter Riley and Margaret Missiaen (202) 447-8260]

Middle East and North Africa

GSM Credit Increases U.S. Sales

The ceiling of \$5 billion for worldwide credit through GSM-102 and GSM-5 creates intense competition for limited funds. The availability of GSM credit has created significant opportunities for U.S. agricultural exports in the Middle East and North Africa. Five countries in that region--Iraq, Morocco, Tunisia, Turkey, and Egypt--have so far received nearly \$1.62 billion in GSM credit for fiscal 1985, nearly one-third of the total GSM credit available so far this year. Iraq, at \$663 million, is the largest recipient; it received \$682 million last year.

Iraq's food production declined drastically in 1984 because of the worst drought in 30 years. At the same time, demand for food increased, partly because of a large number of foreign workers. Nevertheless, plans to greatly expand petroleum exports through a new pipeline to Aqaba Jordan have enhanced Iraq's credit rating. Therefore, in addition to the \$633 million initially approved for GSM-102 credit, a blended credit package of \$30 million for the purchase of 125,000 tons of wheat flour was approved in October. Credit for other commodities may be added to the list.

The availability of GSM credit plays a major role in our exports to Turkey. The \$170.5 million allocated in fiscal 1984 bought wheat and barley, soybeans, and a record 128,189 tons of corn. In September, 77,000 tons of soybeans were purchased for delivery before the end of calendar 1984. The feed grain and soybean purchases are clear indications that Turkey is trying to assure that the expansion in its livestock sector is not ephemeral. GSM credit, plus normal purchases of inedible tallow and other minor commodities, bought U.S. agricultural exports to Turkey to a record \$222 million in fiscal 1984. Another record or a near record is likely for 1985.

Egypt Now Gets Blended Credit

After a change in U.S. policy, Egypt is now getting blended credit, which includes \$136 million for about 850,000 tons of wheat. The package includes \$108.8 million in GSM-102 credit guarantees and \$27.2 million in GSM-5 interest-free direct credit. A GSM-102 guarantee of \$89 million for corn and tobacco was recently announced. Blended credit and GSM-102 credit account for about \$225 million or about one-fourth of U.S. agricultural exports to Egypt in this fiscal year. Another fourth will be under P.L. 480, and the rest will be straight commercial sales.

In 1983/84, Morocco had a mediocre harvest, after a severe drought the year before. Stocks are low, and wheat imports are estimated at 2.5 million tons for 1984/85. For fiscal 1985, the United States has offered \$250 million in GSM credit--\$50 million of GSM-5 and \$200 million of GSM-102. The credit should cover 1.6 million tons of wheat, virtually all of it Soft Red Winter. In 1983/84, \$244 million of blended credit were extended to Morocco, and 1.5 million tons of wheat were purchased.

At the same time that the United States has expanded its credit availability, France has retreated from the Moroccan market. French export credit, at 9.37 percent, has been offered for only 200,000 tons of wheat for 1984/85.

Tunisia finished this past summer with an average harvest and low carryin stocks, so wheat imports should be 900,000 tons for

1984/85, divided evenly between Durum and red wheats. Approximately \$120 million of blended credit has been authorized for 750,000 tons of wheat. Credit has helped the United States gain the dominant share of the Tunisian wheat market, supplying all of its Durum needs and the bulk of its bread wheat. [Michael E. Kurtzig (202) 475-3444]

Latin America

Wheat Crop Down, Others Recover

At 17 million tons, Latin America's wheat crop declined in 1984 for the third consecutive year, mainly because Argentina, the region's major exporter, cut back its planted area. Coarse grains, in contrast, are expected to be a near-record 65 million tons, following a 2-year slump.

A bumper rice crop of 11 million tons was harvested earlier this year. Cotton is on the upswing after several years of shortfalls due to poor weather and low prices. Oilseeds also have recovered. Cottonseed has improved with the cotton crop; palm oil and sunflowerseed continue their growth; and soybeans are up. Among tropical products, sugar and coffee both are expected to be down slightly, but cocoa beans have improved.

Poultry production has risen slightly, but several Latin America countries have cut back on imports of feed grains and oilseed meals for broiler and egg production, showing that the poultry industry is particularly vulnerable to general economic swings. [Chris Bolling (202) 447-8133]

Argentina's Wheat Harvest Smaller

Argentina's December wheat harvest will be about 10.7 million tons, down 10 percent from last year. Poor weather during sowing combined with depressed farm prices to cause a cutback in area. Excellent weather during the rest of the growing season, however, resulted in record yields. Oat, barley, and rye production was down slightly from last year.

Corn, sorghum, sunflowerseed, soybeans, and rice are just being planted. The rainy weather that had been so beneficial to wheat yields is slowing Argentina's summer crop

plantings. Corn and sorghum areas together are forecast at 5.5 million hectares, slightly higher than last year. Oilseeds are continuing their sharp upward trend—soybeans will be up 10 percent and sunflowerseed 15 from a year ago. [Jorge Hazera (202) 447-8133]

Brazil's Wheat Also Down

Late frosts, isolated heavy rains, and pockets of drought combined to reduce the current wheat harvest at least 25 percent from last year, to 1.5 million tons. Lower wheat production will contribute to record wheat imports, forecast at 5 million tons. Corn, soybeans, rice, and cotton, Brazil's major field crops, are just being planted. Despite less than ideal planting weather and problems in obtaining credit, farmers are planting about the same grain area as last year.

If normal weather prevails through the rest of the growing season, yields should be higher than last year's reduced levels, resulting in increased harvests in January–April 1985. Brazil, Latin America's leading coffee, sugar, and cocoa bean producer, is harvesting a 400,000-ton cocoa bean crop, up 17 percent from last year. Coffee bean production is down 10 percent to 2.7 million bags because of earlier frost damage and unseasonal rain during harvest and drying. Sugar output will be down 5 percent to 8.9 million tons. [Ed Allen (202) 447-8133]

Mexico Has Larger Harvest; Caribbean & Central America Improve

Mexico will have a near-record grain crop in 1984. Coarse grain production is up because of abundant rainfall this season. Oilseed production could be down slightly because of weather damage to soybeans. Traditional export crops such as coffee and cotton have also improved. Sugar output will be a record for the second consecutive year. The livestock sector is undergoing a slow recovery because consumer demand and prices to ranchers have been depressed. Overall, Mexican agricultural output should be higher this year, reducing imports and expanding exports. [Myles Mielke (202) 447-8133]

The Caribbean has had a normal growing season after 2 years of erratic weather, so most crops will be larger than a year ago. The

Caribbean sugar crop (excluding Cuba) is expected to be down slightly, while the Central American crop is expected to be up. [Dick Brown and Nydia Suarez (202) 447-8133]

Andean Region's Crops Larger

In this wheat-deficit region, wheat production is expected to return to its 1980 level because of the larger harvest in Chile. Corn, a traditional crop which has been steadily slipping in importance in the region, also showed an upturn this fall. Sorghum has continued its rise and is becoming the region's principal feed grain.

Rice, harvested earlier this year, has recovered from last year's shortfall. Bumper crops in Bolivia, Peru, and Ecuador helped alleviate the food shortages resulting from last year's El Nino disaster. However, production continues to slide in Colombia, the region's largest rice producer.

Cotton is making a strong comeback except in Ecuador, where producers have switched to alternate crops after several bad years. Oilseed production is up sharply. The recovery in the Peruvian fishing sector may depress prices in the region's oilseed industry, since fish meal and oil output have both risen and compete directly with vegetable oils and meal. Banana and cocoa bean output has not fully recovered in the Andean countries from the damage done more than a year ago by El Nino. Colombia's 1984 coffee crop is slightly lower than last year. [Chris Bolling (202) 447-8133]

WORLD TRADE AND FOOD POLICY

Trade Policies

GSP Renewed

On October 30, the President signed P.L. 98-573, the Trade and Tariff Act of 1984, which renews the U.S. Generalized System of Preferences (GSP).

Competitive need limits.—Many of the bill's changes involve the "competitive need" limits central to past and renewed GSP programs. These limits offer an export advantage to relatively new and small suppliers of a particular product by denying

preference to countries whose products are closer to world prices. Countries lose their preference when their exports supply the U.S. market in the preceding year with more than: (1) 50 percent of the value of total U.S. imports of a product, and/or (2) a certain dollar value, adjusted annually for nominal U.S. GNP. This value was \$57.7 million in 1983. Developing country exports totaling \$10.8 billion entered the United States duty-free in 1983 under this program, with 140 countries and territories designated eligible. Agricultural products account for 10 to 15 percent of GSP imports.

Graduation.—The renewed GSP establishes a new intermediate category of "sufficiently competitive" GSP exports—for example, those close to world prices. These products will be determined by a Presidential review, and will enter the U.S. market on less preferential terms than less competitive GSP exports. The President will suspend the GSP status of these "competitive" products when their total imports exceed \$25 million and or 25 percent of the U.S. market share, while the limits of \$57.7 million and/or 50 percent will continue for regular GSP products not listed as "sufficiently competitive." The bill also provides for the complete removal of a country from GSP status, following a 2 year phase-out period, if its per capita GNP exceeds \$8,500.

De minimus waiver.—This waiver will be increased from \$1 million to \$5 million. Under it, GSP imports can now surpass the legislated 50-percent limit if the value of total U.S. imports of a product is less than \$5 million. As in the past, least developed countries will be fully exempt from the two GSP limits, allowing their exports to exceed \$57.7 million and 50 percent of the U.S. market share.

Product waiver.—Under the new legislation, the President must examine market access for U.S. exports in a country before granting a product waiver for GSP benefits additional to the \$5 million waiver or those for least developed countries. These market access considerations include: (1) refraining from unreasonable export practices, such as export subsidies; (2) providing adequate marketing protection for U.S. patents, copyrights, trademarks, and other intellectual property; (3) reducing trade-distorting investment practices, such as

mandatory export levels or trade barriers to U.S. services; and (4) affording workers "internationally recognized worker rights."

Duration and eligibility.—Under the new bill, the GSP will be extended through July 4, 1993. Its current provisions on country eligibility will be essentially unchanged. Current provisions for product eligibility will also be unchanged, with the exception that any new leather-related products are barred from eligibility. Executive branch agencies will further be directed to assist beneficiary countries to ensure that their agricultural exports are not undermining their production of food for domestic consumption.

P.L. 480 Allocations Set

Tentative allocations of P.L. 480 Title I/III aid have been announced for FY 85. Thirty-one countries will be given U.S food assistance. Total assistance will be worth \$857 million, and will come to 4.5 million tons of food (grain equivalent). Of this, 3.9 million tons will be wheat flour. Together with an unallocated reserve of \$242.5 million, Title I/III funding is \$1.1 billion. This represents a 38-percent increase over FY 83 sales and a similar increase over estimated FY 84 sales.

Allocations to Egypt (\$225 million), Bangladesh (\$75 million), Pakistan and the Sudan (\$50 million each), and Morocco (\$45 million) represent about one-half of country-specific allocations.

EC Adopts New Policy Instrument

On September 17, the EC Council adopted the "New Commercial Policy Instrument" (NCPI), enlarging the Community's commercial weapons against export dumping and subsidies, and increasing EC surveillance and safeguard mechanisms. The goal of this new regulation is to respond more quickly to damage to Community industry in either its domestic or its export markets by illicit trade practices in non-EC countries. The latter could include restrictions on exports of raw materials, certain import restrictions not covered under existing instruments, and restrictive administrative practices contradicting international regulations.

Under the NCPI, EC companies may file a complaint against illicit commercial practices,

defined as practices incompatible with either international law or generally accepted rules. Measures the EC might take against illicit practices are expected to be compatible with EC international obligations. Measures could include suspending or withdrawing negotiated concessions, raising or establishing import duties, and creating quantitative restrictions.

The new regulation provides schedules for various stages of EC action. For example, a case must be opened 45 days after a complaint is filed and the Commission must submit a final report 5 months after a complaint case is opened.

Trade Agreements

Australia and Egypt Sign Wheat Agreement

The Australian Wheat Board (AWB) has signed a long-term agreement with the Egyptian Ministry of Supply and Home Trade to supply a minimum of 1.5 million tons of wheat each year from 1985 through 1989. Under the previous agreement, the annual minimum commitment was 1 million tons.

For calendar 1985, Australia will supply 2 million tons and, as in the 1984 agreement, payment terms will include 3 years of credit at commercial interest rates, reported in the press at 11.6 percent. The price of the first 750,000 tons is \$155.75 a ton f.o.b. Subsequent prices will be set quarterly on the combined basis of Chicago, Kansas City, and quoted AWB prices.

Under the agreement, Australia will contribute \$4 million towards a \$6.5-million silo at Sohag, Upper Egypt. The silo will have a 30,000-ton capacity. A milling and baking training center will also be established in Sohag, and Egyptians will be trained in Australia in silo management.

China and New Zealand Set Dairy Agreements

A set of agreements was recently signed by New Zealand dairy equipment suppliers and the Chinese Government, spanning the next 5-15 years. A New Zealand dairy mission to China returned last year with a package of 24 deals, including a memorandum for long-term supply of dairy products to China. The

agreements signed this time called for New Zealand to provide advice on pasture development, livestock quality and numbers, transportation, and refrigeration of dairy

products. These agreements result from a 1983 visit of China's premier, Zhao Ziyang, to New Zealand. [Edward Wilson and Mark Smith (202) 447-8470]

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EC DAIRY SURPLUSES: EVOLUTION AND PROSPECTS

Situation and Outlook Section 1/ Western Europe Branch International Economics Division

Abstract: The EC introduced milk delivery quotas in 1984 because the previous dairy policy let production outstrip demand. Although the new quotas will reduce output significantly, the EC will continue to have surpluses and will remain the world's largest exporter of dairy products.

Keywords: European Community, milk, dairy policy, agricultural policy, dairy production, surpluses, quotas.

Milk is the most important agricultural product in the European Community. It is produced on one-third of all farms, thus providing some employment for about 1.4 million families. It accounts for 20 percent of the value of the EC's agricultural production.

Supporting this important and productive sector is costly to the EC. EC dairy expenditures on export and domestic subsidies have averaged about \$5 billion annually in recent years.

When the EC's dairy policy began 16 years ago, the Community was a net importer of dairy products. In general, EC farm policy originated in an environment of food shortages and was intended to stimulate, not inhibit, production growth. The dairy policy successfully encouraged larger output; dairy self-sufficiency was achieved in the early 1970's, and surpluses have burgeoned since then.

By 1983, EC milk production was more than 75 percent larger than that of the United States and accounted for more than one-fourth of world output. Butter production reached 2.3 million tons last year, nearly four times greater than U.S. output and equal to one-third of global output. Skimmed milk powder (SMP) production reached 2.5 million tons, one-half of the world's production and 3.7 times the U.S. output. Cheese production rose to 3.6 million, exceeding U.S. output by nearly two-thirds and accounting for two-fifths of the world's production. Production growth rates for whole milk powder, whey powder, and casein were even higher than for butter, SMP, and cheese. EC

subsidies for processing SMP into casein have resulted in the EC producing more than half of the world's output.

Because of such huge production, the EC has become the world's largest dairy exporter; it must rely heavily on export markets to dispose of its surpluses. But, with world markets for milk products slack in 1982 and 1983, because of both economic recession and increasing milk production in many importing countries, exports declined from earlier levels and aggravated stock accumulation.

In 1983, production exceeded consumption by approximately 21 million tons, whole milk equivalent, or 19 percent of annual

EC support prices 1/

Commodity	1982/83	1983/84	1984/85	
	Percent change			ECU/MT
Soft wheat	8.5	3.0	-1.0	183
Bread wheat	8.5	3.0	-1.0	213
Corn and barley	8.5	3.0	-1.0	183
Rice	12.0	5.5	2.5	314
Sugar beets	9.5	4.0	0	41
White sugar	9.5	4.0	0	535
Rapeseed	8.5	4.0	-1.0	429
Sunflowerseed	14.0	6.0	-1.0	533
Soybeans	11.5	6.5	1.5	502
Cotton	13.0	8.0	1.5	894
Milk target price	10.5	2.3	-1.0	279
Butter	10.0	2.3	-10.8	3,197
Nonfat dried milk	10.4	2.3	10.9	1,658
Beef & veal	8.5	5.5	-1.0	1,845
Pork	10.5	5.5	-1.0	2,033
Sheep meat	10.5	5.5	-1.0	4,280
Average increase				
ECU's	10.4	4.2	-.5	
Nat'l currencies	12.2	6.9	3.3	
Exchange rate 2/ US\$/ECU	1.00	.93	.85	

1/ Generally intervention prices or target prices tied to intervention mechanisms.

2/ Exchange rate in April, typically when prices are fixed for the coming marketing year.

1/ Marshall Cohen, Miles Lambert, James Lopes, Stephen Sposato, and Ronald Trostle (202) 447-8289.

production. Butter and SMP stocks, the two principal products stored by Community intervention agencies, rose to record highs by the end of the year—800,000 tons of butter and 1 million of SMP. This occurred even though additional funds were spent to subsidize the feeding of skim milk powder to EC livestock.

There have been several ineffective attempts over the years to reduce the growth in milk surpluses, but the basic dairy policy remained unchanged until the introduction of delivery quotas in April 1984.

Policy Encourages Expanding Production

From its beginning, one main objective of the EC's dairy policy has been to ensure a fair standard of living for the majority of dairy farmers. Consumers' interests have generally been secondary.

There are 4 types of policy mechanisms used to support the market for dairy products:

- o market intervention—arrangements which guarantee the purchase of butter, SMP, and some cheeses at a specified price, or subsidize their storage in nonpublic facilities;
- o surplus disposal aids—a variety of measures that boost the consumption and disposal of surplus products within the EC;
- o import levies—mechanisms that protect EC producers from lower priced imports; and
- o export subsidies—measures to bridge the gap between high EC prices and lower world prices.

The EC Commission is responsible for implementing the dairy policy. However, it relies heavily on a dairy management committee composed of member state representatives and chaired by a Commission official. The Commission also relies on an advisory committee of representatives of producers, processors, workers, and consumers.

Each year the following prices are fixed by the EC Council:

- o intervention prices for butter, SMP, and certain cheeses;
- o threshold prices for dairy products;
- o target price for milk.

The intervention agencies, operating in each member state, are obliged to buy at intervention prices all butter, SMP and, in Italy, certain cheeses offered to them. Threshold prices for dairy products are the minimum prices at which imports are allowed to enter the EC. By supporting the price of major dairy products and controlling prices of imports, the EC ensures that farmers obtain approximately the target price for milk delivered to dairies.

The prices received by dairy farmers have risen steadily since the dairy policy became effective in 1968. The EC's target price for milk, in European Currency Units per 100 kilograms of milk, rose nominally from 10.30 in 1969 to 27.15 in 1984. However, after adjustment for inflation, the target price actually declined. In real terms it stood at 7.31 ECU's in 1984.

Nevertheless, milk production rose 34 percent in the same period. This anomaly occurred because increases in productivity led to reductions in production costs. The drop in costs more than offset the decline in real prices. Technical progress and structural development in the dairy sector made it possible for many dairy farmers to stay in production even with continuously decreasing real prices.

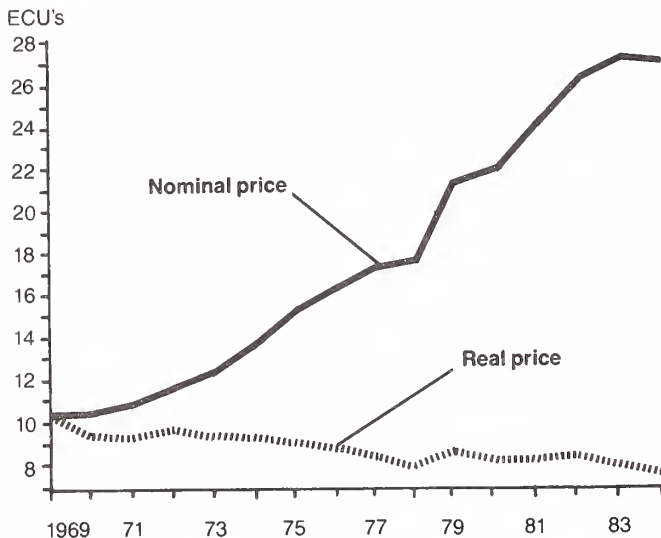
Growth Steady in Milk Output

Since 1970, the dairy herd has ranged from 24.7 to 25.9 million head, with no definite trend. But, the average milk yield per cow per year rose from 3,079 kilograms in 1964 to 4,396 in 1983. This 43-percent increase reflects a 1.9-percent average annual growth rate, or nearly 70 kilograms per year. Yield growth has accelerated in recent years, with an average annual expansion rate of 2.5 percent during 1975-83, compared with 1.4 in 1969-74.

There have been significant shifts in the composition of the average dairy herd, away from lower yielding dual-purpose cattle to more productive dairy breeds. A gradual but steady increase in productivity has also resulted from careful breeding on the basis of registered herd books.

Improved nutrition has also greatly enhanced productivity. The use of compound

Nominal and Real Target Prices for EC Milk



feeds has more than doubled since 1970, reaching 26 million tons in 1981, although total dairy cattle numbers rose only 6 percent. Average compound feed used per animal increased from 165 kilograms in 1970 to 340 in 1981.

Consumption Climbs Slowly

Total EC use of milk and major dairy products (on a whole milk equivalent basis) has risen steadily from about 91 million tons in 1973 to 100 million in 1983. The growth rate has been nearly 1 percent per year, well in excess of the 0.3-percent population growth rate.

Part of the increase is due to consumer subsidies for butter, subsidized school lunch programs, and subsidies for feeding skim milk powder to livestock. Special measures for encouraging consumers to eat butter are estimated to account for one-third of EC butter consumption. Consumption subsidies for dairy products cost 1.8 billion ECU's (\$2 billion) in 1982.

Per capita consumption of dairy products is considerably higher in the EC than in the United States. However, EC consumption of all dairy products except cheese has been declining. Butter consumption, in particular, has been losing ground to margarine.

The EC sells SMP for feed at prices up to 85 percent below the invention price. In

recent years, such sales have ranged from 1.2 to 2 million tons annually.

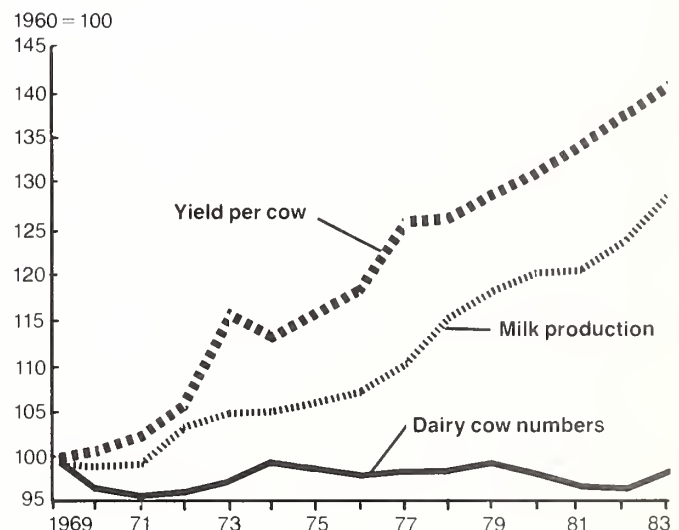
Exports Expand Rapidly

In spite of the growth in the EC's internal use of dairy products, the Community has increasingly turned to the export markets to dispose of surpluses. EC dairy exports rose from \$4.3 billion in 1975 to \$10 billion in 1980. Intra-EC trade as a share of total dairy exports declined from 72 percent in 1975 to 59 in 1980, when the value of exports to non-EC countries reached \$4.1 billion.

Excluding intra-EC trade, EC exports accounted for 47, 50, and 45 percent of 1980 world trade in butter and butteroil, SMP, and cheese, respectively. Major importers include the USSR, Middle Eastern and African countries, and non-EC Western European countries. The EC also has 40 percent, or 43,500 metric tons, of the U.S. import quota for cheese.

Export subsidies have been used to augment outside sales, especially in the mid-1970's and in 1979 and 1980, when world demand picked up, particularly in the Soviet Union and the richer less developed countries. Dairy export subsidies peaked in 1980 at \$3.8 billion, a sum equivalent to 94 percent of the value of the products exported. The EC's net trade surplus in dairy products that year reached \$3.4 billion. Nevertheless, surplus stocks were significantly above earlier levels.

EC Milk Production, Cow Numbers and Milk Yield



Past Production Controls Unsuccessful

Since 1968, the Community has tried several programs to control the growth of surpluses. In 1969, it established premiums for slaughtering dairy cows and for the nonmarketing of milk. Although these schemes dampened the growth in milk production in the short run, they failed in the long run because they only encouraged farmers to slaughter their least productive animals with the aid of EC subsidies, and to replace them with better breeds.

In 1974, the EC introduced a "beef conversion scheme" designed to combine dairy surplus reduction with increased beef production. This scheme was accompanied by "nonmarketing and herd conversion" plans introduced in 1977 and a "suckler cow premium" in 1980. These programs provided incentives to farmers to stop selling milk and to use their cows for raising calves and producing beef instead. However, they had little effect on dairy cow numbers, or on the level of milk deliveries to processing plants. All of the programs have been terminated, except the suckler cow premium.

Since 1977, a "co-responsibility levy" (tax on milk production) has been used to force producers to share the cost of disposing of surpluses. But the levy is little more than a token contribution by producers, has been offset by higher milk support prices, and has not slowed milk production.

Dairy Supports Cost Most

The EC budget allocates more funds for dairy support than for any other sector, agricultural or nonagricultural. Consequently, dairy policy takes on additional significance. Dairy expenditures peaked in 1980 at 5 billion ECU's (\$7 billion at the rate of exchange then). In 1983, expenditures were 4.9 billion ECU's (\$4.4 billion). This spending represented about 30 percent of the EC's agricultural budget and 20 percent of its total budget.

Until 1983, export subsidies on shipments to non-EC countries made up the largest dairy expenditure item. "Domestic intervention" expenditures include storage costs and various price compensatory measures. The dairy sector also benefits from nearly \$100 million a

year in financial support for improving farm structure, processing, and marketing.

Milk Delivery Quotas Imposed

The approval of 5-year quotas on milk deliveries represents a sharp break with the past and with the philosophical underpinnings of EC agricultural policy. Sugar is the only other commodity produced under quota.

Under the quota system, producers will receive the guaranteed support price for milk deliveries within quotas. Milk deliveries above the quota will be subject to a levy or tax. If the member country has quotas allocated on an individual producer basis, the tax is 75 percent of the milk target price; if member country quotas are allocated to dairy processing plants, this tax is 100 percent of the milk target price.

For the 1984/85 marketing year, EC agricultural ministers approved an overall milk quota of 99.6 million tons, 4 percent below deliveries in 1983. For the following 4 years, the overall quota drops to 98.4 million tons per annum.

Output Falls But Surplus Remains

The initial confusion regarding the allocation of quotas has ended and producers are beginning to adjust to the quota. Milk production for 1984/85 is expected to be down, although not by the full 4 percent indicated by the overall quota.

To meet on-farm needs and to ensure that they fulfill their quotas, EC dairy farmers will probably continue to produce more milk than they deliver to dairies. However, with the stiff tax on additional marketings, milk producers can be expected to cut their output close to their quotas.

In 1983, milk deliveries from EC producers to dairy processing plants totaled 104 million metric tons, about 93 percent of the 112 million tons of milk produced. Domestic use, excluding stock accumulation, is estimated at 91 million tons. Thus, if the quotas are observed by producers, the surplus will be reduced only about one-fourth. Consequently, the EC will still be burdened with large surpluses and will very likely remain the world's largest dairy exporter.

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